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ESTABLISHING THE RATIONALE TO FORMULATE
A HEURISTIC DECENTRALIZATION PHILOSOPHY;
WITH EMPHASIS ON GOVERNMENTAL
ORGANIZATIONS

ROBERT F. WENZEL

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ESTABLISHING THE RATIONALE TO FORMULATE
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WITH EMPHASIS ON GOVERNMENTAL
ORGANIZATIONS

by

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PREFACE

Management, itself, has come to accept, to an increasing extent, a new definition of its functions. Perhaps, in this evolution is to be found the hope of the future, based upon managerial acceptance of new concepts, new interpretations, and rejection of some old concepts -- economic, political, sociological, and ethical.

-- George Filipetti
Industrial Management in
Transition, p. 328.

Management is dynamic in nature. Because this is so, it requires a continuous and realistic appraisal of its concepts and techniques, one of which is managerial decentralization. The purpose of this study is to gather evidence of the successful application of decentralization as a management technique and further to analyze the major constructs of the decentralization philosophy resulting in the formulation of a universal framework within which decentralization may be implemented to the optimum degree.

Appreciation is expressed to Dr. A. Rex Johnson, Director of the Navy Financial Management Graduate Program, for making his wisdom and knowledge available as guidance. His challenging questions, constructive criticism, and patience will be a long-lasting inspiration.

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Washington, D.C.
May, 1962.

INTRODUCTION

The tremendous expansion of governmental (and private enterprise) activities in recent years is commonplace knowledge. Accompanying this expansion has been a search for improved techniques and tools of administration which would enable smooth, efficient, and economical operation of the complex machinery which makes up present-day government.

Many management techniques once considered axiomatic seem more and more inadequate. Everywhere and evermore, the rational and the logico-deductive tend to compel a re-examination of traditional beliefs and practices.

This study is intended to be a re-examination of the now traditional practice of decentralization with the intent that, after completion, a sound decentralization philosophy can be formulated.

Governmental agencies must be so organized as to insure efficiency of action on the part of democratic government. At the same time, they must be so formed as to preserve and to strengthen the democratic spirit of the people on which that government ultimately depends. Efficiency, once a mere administrative desideratum, has been turned into a condition of democratic survival by the desperate urgency of the tasks before democratic states. But it is only a prerequisite and not a guarantee of democratic government. Inefficient government invites and aids the frontal attacks of dictatorship; but the striving for pure efficiency may well produce a gradual discarding of democratic methods in spite of democratic ideas being still professed and perhaps sincerely believed in. Democracy cannot live without spontaneous and free cooperation by the people as the corollary of political leadership. Impotent democracy is bound to be overthrown; completely regimented democracy destroys itself.

Thus, the crucial problem of democratic administration, and of the territorial framework within which it is to move, is to achieve a balance between efficiency and the spontaneous cooperation of the people in the everyday business of government, which is administration.

In other words, efficiency is to be promoted where it is still compatible with a substantial degree of free participation of the people.

Large organizations over optimum size become unwieldy, difficult to manage and a victim of inertia. Administration and management, due to their distance from operations, make decisions which become impersonal and they lose perspective of the organization's problems. The span of control of any executive or group of executives is usually such that regardless of the assistance of subordinates they are unable to comprehend the vastness of operations. Factors such as the tremendous supply of personnel, coordination of all elements, internal transportation servicing, and maintenance are all limiting factors and are large problems in vast centralized organization.^a

This does not mean that the growth of an organization is not beneficial. The growth usually expresses the increase of efforts in scope and diversity, to cope with the multiplying tasks of increased operations. This growth and concentration of government processes, up to a certain limit, makes for efficiency; if carried too far efficiency is bound to decline. The answer seems to be decentralization of operations. That lesson was brought home to many organizations during World War Two.

There are proponents of centralization professing that this method of operations is more efficient, just as there are proponents who profess decentralization of operations is the most efficient manner in which to accomplish the mission. The point of view that all decentralization or all centralization of

^aNorman B. Schreiber, Philosophy of Organization, (Chicago: Akroch and Son, Publishers, 1943), pp.

operating facilities is efficient or inefficient is an all inclusive misstatement. Decentralization or centralization considered as formulas which will cure all of our problems just by taking a large dose of either one is mere blind allegiance to either principle. It must be realized that both have their pitfalls, and these must not be overlooked when weighing against the other.

A search must be made by management into factors governing the arrangement of their particular organization processes to obtain a maximum of productive efficiency. The degree of centralization or decentralization used must be that amount best for it to gain all that is possible from their use. The need for appropriate concentration or dispersion necessitates adjustment of the organization to its own unique problems of size, executive personnel, and mission. The point being made here is that there are advantages and disadvantages to both types of operations.

In making a decision whether a particular organization should decentralize, the criteria is not to think of centralization or decentralization as an overall principle being good or bad; the criteria is whether the particular type of organization with its inherent ramifications, characteristics, and the conditions which prevail will be benefited by the use of either principle -- and what degree of each should be used.

In recent years there has been a flow of literature on the subject of decentralization which has resulted in a variety of applications of the term extending from geographic dispersal of activities to the delegation of authority for making decisions. In pursuing the study it is deemed necessary first to define the terms concerning decentralization and then present the arguments for and against decentralization. The principal interest is in the area of

managerial decentralization. After providing the basic knowledge it is deemed appropriate to study the opinions expressed by industrial leaders, learned authors and others, who are proponents and critics of managerial decentralization. At this stage an attempt will be made to resolve conflicting points of view and then to examine some industrial and governmental applications of the technique.

The problem of greatest importance in the field of management is and probably will continue to be the further development of the philosophy of management. We cannot have effective organizations without a sound managerial philosophy. One segment of such a sound managerial philosophy involves decentralization and that is the intent of this study -- to analyze the material collected and from this information to formulate a framework for a managerial decentralization philosophy, with particular emphasis on governmental application.

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CHAPTER I

THE EVOLUTION OF BUREAUCRACY AND THE CENTRALIZATION/DECENTRALIZATION CONTROVERSY

Bureaucracy in the Modern State

Modern bureaucracy began in the late Middle Ages with the development of the national state. The Peace of Westphalia (1648), following the bitter Thirty Years' War, prepared the way for the rise of the modern state system by ending the hegemony of the Hapsburgs and Holy Roman Empire. As Max Weber has shown, the latter existed without a well-developed bureaucracy. From this time onward, however, the growth of systematic bureaucracy was correlated with the rise of powerful independent states. Large standing armies were required to ensure national sovereignty. The transitory bands of feudal times were replaced by highly organized forces possessing hierarchical structures, rudimentary staff services, and a chain of command from commander to ordinary soldier. The army thus became the first modern administrative machine.

In France, for example, the intendants, who became the principal instruments of monarchical power during the reign of Louis the Thirteenth, first appeared in the provinces in company with the royal armies.¹ Although their duties were then primarily political and judicial, they became by the middle of the Seventeenth Century the dominant factor in local administration. Under the creative centralization of Richelieu and the vigorous ministers who immediately followed, the provinces were reduced to submission and the power of the intendants was increased correspondingly. Although royal power continued to be

¹Herman Finer, The Theory and Practice of Modern Government (New York: Dial Press Inc., 1932), Vol. 2, Chap. 24. An authoritative analysis of the development of French civil service during the Seventeenth and Eighteenth Centuries.

challenged by the local parlements, Richelieu, with consummate skill and ruthless determination gradually solidified the monarch's position against the feudal nobles, destroying by edict the fortified chateaux which symbolized their power and executing those who continued to resist. The role of the intendants was thus transformed by lodging in them the powers formerly wielded by the noble governors, who by the end of the Eighteenth Century retained only honorary power. Enjoying wide discretion in matters of law enforcement, justice, and taxation, the intendants, who were largely of middle-class origin, became loyal servants of the king, providing a web of strategically located observers throughout France. By 1625, largely through the genius of Richelieu, French administration had begun to reflect strongly the "imperial mosaic."

Richelieu's innovations were extended under Louis the Fourteenth by Mazarin and Colbert, both of whom possessed in full measure the passion for detail, the devotion, and desire for achievement of their predecessor. Colbert's correspondence for *raisons d'etre* left behind a rich legacy of information concerning the public administration of his time. Employing fully the initiative of the central government, and enjoying the complete approbation of the "Grand Monarch," he embarked upon a variety of public enterprises, including industries, roads, canals, navies, and the promotion of foreign commerce. All the while he displayed an uncanny ability to extract vast revenues from the provinces. This was in part a self-rewarding activity: Colbert, like Richelieu and Mazarin before him, accumulated a personal fortune generous beyond the dreams of avarice. During this period, Louis the Fourteenth assumed an active role in administrative affairs, personally supervising the establishment of a highly centralized bureaucracy, with a rational structure of ministries whose directors were immediately responsible to himself. His own creating, this administrative

system was perhaps the supreme achievement of his reign.²

Such developments necessarily increased the power and number of the intendants. But because of their purely legal training and the pressure of work, they were often unable to carry out their new responsibilities. Thus, permanent subordinates (subdelegates) appeared, and, despite the suspicion of the King and Colbert who feared them as potential competitors, gradually assumed discretionary powers which in time made them indispensable. As a French scholar notes,

The various ministers have accumulated for the century past so much detail in affairs of all kinds that it is impossible for them to attend to them directly. Thence a new kind of intermediary power has grown up between the ministers and the citizens... it is that of the clerks, persons absolutely unknown to the State, and who, however, speaking and writing in the name of ministers, have like them an absolute and irresistible power, and are even more than they sheltered from all investigation, since they are much less well known.³

Thus the beginnings of bureaucracy and official discretion.

Organized bureaucracy flourished meanwhile in the German State during the Eighteenth Century under the influence of the cameralists, a group of political economists who wrote widely on the problems and needs of public administration. Although their principal objective was to encourage the development of national wealth, they were committed in the process to matters of administrative technology, greatly influenced by Colbert, which sought to discover the most effective ways of administrating the whole of public activity.⁴

²Carlton J. H. Hayes, A Political and Cultural History of Modern Europe (New York: The Macmillan Co., 1932), pp. 292-293, chap. 6, passim.

³Finer, op. cit., p. 1234, quoting DeLucay, Les Secretaires d'Etat depuis leur institution jusqu' a la mort de Louis the Fifteenth (Paris: 1881), p. 149.

⁴Albion Small, The Cameralists (Chicago: University of Chicago Press, 1909).

The secularization of educational and charitable services administered by the church during the Middle Ages provided an additional impetus to the development of modern public administration. From this time on, however, haphazard their introduction and growth, social services everywhere became a recognized concern of the state.

Thus, although Woodrow Wilson insisted in 1887 that systematic administration was a development of contemporary times, the various elements of the art have been speculated upon and practiced for centuries beyond memory.⁵ There is general agreement, however, that modern bureaucracy developed hand in hand with the national state. The assumption of new functions and responsibilities by the monarch, including the protection of subjects, the promulgation of legal guarantees, the administration of justice, the construction of roads, and the need for assured revenues to support these activities all demanded the services of talented and permanent functionaries. An analysis of the nature and role of this group has come to be known as the bureaucracy.⁶

Trends Toward Centralization

Our country was originally divided into many independent states and these local areas resisted centralization, but due to their inefficiencies there was a trend toward centralism. This was violently resisted and caused the central government to work out a modified decentralized government which left only one alternative, that of increasing the efficiencies of the local authorities. This has been the major problem in decentralized administrations up to this date.

Centralization of power at our national capital is largely the result of

⁵Woodrow Wilson, "The Study of Administration", Political Science Quarterly (June 1997), pp. 197-222.

⁶John M. Pfiffner and R. Vance Prethus, Public Administration (New York: 1953), pp. 37-39.

efforts to protect citizens from the evils of overcentralization in the industrial and commercial life of the country, a tendency that has been going on for generations. In the major depression of 1929, business centralization made us more vulnerable than ever to the disruption that ensued. Cities and states were powerless and the federal government had to act. This quickened the tendency to centralization in government.

Then business started to decentralize, this demonstrated to government its advantages and disadvantages.

The Impact of Centralization

Continental administration as we have seen, bears the mark of Napoleonic centralization. This has implications for the way officials think; decentralization often means giving up power and jurisdiction, which is probably contrary to the inclination of most administrators. "The American occupation in postwar Japan brought about nominal decentralization in areas such as education and police."⁷ The centripetal influence of the French in this respect is visible in Japan and Turkey which adopted the Roman law as their basic jurisprudence. There the intellectual fabric of the civil servant is interwoven with this juristic material. In consequence, approach to administration is legalistic and historical and therefore often rather inflexible. This is in some contrast to the empirical management approach which is so influential in American administration."⁸

As Henri Fayol pointed out:

Centralization, like division of labor, is one of the laws of nature... Centralization is not a system of administration, which is good or bad in itself, and can be adopted or discarded at will; it is always present to

⁷An interesting study in comparative administration would be to determine how much local autonomy survives some seventeen years after the peace.

⁸Pfiffner and Prethus, op. cit., p. 343.

some extent, so that the question of centralization or decentralization is simply one of degree -- the problem is to find out what is the best degree of centralization for a given undertaking.⁹

The pure resistance to change imbedded in people has been influential in thwarting the shift towards decentralization. Government agencies traditionally have been hesitant to decentralize to any significant degree until this past decade. A great lesson was learned during World War II, when agencies were forced to decentralize.

The Impetus Towards Decentralization

The increasing number and complexity of the functions of the Federal Government have resulted in a tremendous growth and elaboration of the Federal administrative machinery throughout the country.

This situation gives rise to the problem of popular control over these functions. So David Truman states, "Federal authority now makes demands upon the individual farmer and business man, performs services and enforces requirements in the countryside and market place which bring it into contact with the citizen with an intimacy which but recently was unknown even in times of war."¹⁰ For effective administration this development has necessarily been accompanied by integration and decentralization of these new functions within the federal administrative structure. Successful administration of programs which touch the daily lives of the citizenry calls for decentralization.

Decentralization is necessary if a program is to be carried out efficiently, that is, with the consent and cooperation of those whom it affects.¹¹

⁹Henri Fayol, Industrial and General Administration (New York: Pitman Publishing Corp., 1949), p. 27.

¹⁰David B. Truman, Administrative Decentralization (Chicago: University of Chicago Press, 1940), p. 5.

¹¹Ibid., p. 6.

Truman cites another factor which demands decentralization, namely, the conflict between administrative effectiveness and the theory of rigid federalism.¹² In the past there have been some fears that the continuing increase in the functions of the national government will destroy the federal system by eliminating the states as effective units of administration. In general, administrative decentralization is essential to the coordination of state and federal aspects of a function which both levels of government perform.¹³

Problems of adjusting national policies to local physical and economic peculiarities are among the factors supporting decentralization. When a national policy affecting local areas is adopted, the administrators must consider that the success of the national determination depends upon the successful adaptation of administration to the peculiarities of all these problem areas.¹⁴ Unless national programs can be carried out successfully in each locality, the entire program is bound to fail and ceases to be national in scope.

According to Gulick, experience gained during World War II tended to show that activities which must be carried on all over the nation or all over the world, must be decentralized. Such decentralization calls for and is limited by the tools and techniques of administration.¹⁵ It requires field supervision as well as central coordination and adaptation of programs to meet local needs. It was found that when geographic dispersal of operations called for decentralization of an organization, high technical standards and policy uniformity could be maintained by supervision in the field. Every major agency had a Washington office and a field organization.

¹²Ibid., p. 8.

¹³Ibid., p. 9.

¹⁴Ibid., p. 10.

¹⁵Luther N. Gulick, Administrative Reflections from World War II (University of Alabama: University of Alabama Press, 1948), p. 95.

Gulick states that most war agencies were faced with the necessity of dividing a large part of their work along geographic lines for the simple reason that they had to operate headquarters offices in Washington, and at the same time they had to carry on operations which not only were nation-wide but also world-wide.¹⁶ An excellent example was the War Department which organized its "field" as "theatre commands" abroad and as "Corps Areas" here at home. Both field and central offices had many specialized and technical divisions, such as engineering, medical, ordnance, etc. In each corps and theatre command, there was a single commanding general. Each commander was delegated wide authority for various functions. Standards were established in Washington. Inspections were made to ensure compliance therewith.

Another example was the War Production Board which divided the U.S. into thirteen regions, and then into some one hundred districts. The organization at Washington differed markedly from the organizations in the field, so that there was no near similarity at headquarters and in the field as there was for the Army.¹⁷

The assignment of the complex operation of priorities to the field office became a successful application of the principles of decentralization.¹⁸ Critics had insisted that it would produce not a nation-wide uniform program meeting national requirements, but a series of local policies, bearing unfairly on different sections and different procedures. This fear proved to be groundless in practice as the local officers were almost universally more strict than the Washington office.

¹⁶Ibid., p. 91.

¹⁷Ibid., p. 92.

¹⁸Ibid., p. 92.

Experience showed that proper delineations of authority and responsibility, establishment of policies and precedents, development of a reporting and an inspection program were essential for successful decentralization. Another valuable lesson was the value of "grass roots" cooperation with the decentralized local office which added to the soundness and efficiency of the total program.

There was a definite wartime trend towards decentralization. Due to pressure for office space and for living accommodations in Washington, numerous agencies, mostly "old line" such as the Immigration and Naturalization Service, the Patent Office, the Security Exchanges Commission, with thousands of employees, moved out. This introduced the element of geographical decentralization into the departmental service. The emergency war agencies, however, such as the Office for Emergency Management, O.P.A., the War Production Board, the Office of Civilian Defense, the War Manpower Commission, and the Office of Defense Transportation, among others, "realized the necessity for both a geographical and a functional decentralization if they were to discharge adequately the enormous responsibilities thrust upon them."¹⁹

Wartime experience thus served to demonstrate not only the workability of decentralization, but also that no organization is too big to be administered in a reasonably efficient manner, provided that available administrative methods are used. In addition, it also seems to have made an important contribution in the field of human relations, since by bringing decisions close to those who must carry them out, a significant contribution to morale is made.²⁰

¹⁹W. Brooke Craves, "Federal Administration Areas: A Historical Record of Confusion and a Suggested Program of Action," Western Political Quarterly, I (March 1948), p. 55.

²⁰Howard K. Hyde, "Size vs. Effectiveness: An Administrative View," Advanced Management, XV (January 1950), p. 13.

Historical Summary

Certain conclusions may be drawn from this necessarily brief history of the evolution of bureaucracy and the centralization versus decentralization controversy. In the historical background of democratic administration, a clear pattern of decentralizing versus centralizing tendencies stands out. Thus while increased national functions led to an elaborate Federal administrative machine, there was an accompanying search for methods which would ensure effectiveness and efficiency. Decentralization was devised as a method for making activities manageable. In the administrative service, it denotes a delegation of authority, which may involve geographical as well as functional factors. The need for decentralization is created by complexity of organization and function, the requirement of improving services, and the necessity for promptness, economy, and efficiency. Obstacles to decentralization are created by the influence of tradition, the exigencies of central control, fear of localized pressure groups, and difficulties of coordination. Among its assets are the facilitation of popular control and participation, flexibility, and improvement of morale. Experience gained in World War II with the geographical and functional decentralization of "old line" and war emergency agencies demonstrated the workability of this concept. In the increasing emphasis upon this concept since World War II, the goals remain the making of the greatest number of decisions in the field, the development of active popular participation, and effective coordination of the work of the various levels of government.

It might be well at this time to point out that some of the very reasons for decentralizing in the past decade are now becoming reasons for centralizing certain functions. This has come about as a result of the technological breakthroughs in rapid communication and cybernation or machine application.

In order that we may proceed with the discussion of centralization and decentralization, it is first necessary that we establish a common language. The next chapter will attempt to define the terms and differentiate between them.

CHAPTER II

THE DIFFERENTIA BETWEEN CENTRALIZATION AND DECENTRALIZATION

Interpretation and Distinction of the Terms

There is an abundance of literature on the subject of centralization and decentralization and the desired degree of each. The terms have a variety of applications extending from geographic dispersal of activities to the delegation of authority for making decisions. This vague usage creates a basic problem for the reader, who must distinguish between these two primary uses of decentralization. More often than not the word decentralization has been used to imply all-out decentralization, without differentiation in its particular application to differentiation in its particular application to different management functions. While geographic decentralization involves physical dispersal of activities, decentralization of decision-making, hereafter referred to as managerial decentralization, concerns the relationship of the people involved in these activities. Merely physically scattering plant facilities over a wide area does not necessarily imply an accompanying delegation of authority to their respective managers. Decision-making may still be concentrated in one place, constituting a high degree of centralization. On the other hand, decision-making may be delegated, thus decentralizing without the physical movement of activities and people from a central location. The statement that "we are decentralizing," often made by top-management, requires a searching question of what -- to identify which of the two uses of the term decentralization is being implied; or what combination of the two forms of decentralization is intended.

It is perhaps more adequate and truly representative to use the term "divisionalization" when implying geographic decentralization. Or perhaps better

yet, dispersion is more truly definitive of geographic separation from the central office. Louis A. Allen describes what is called divisionalization as the process of breaking up large fundamental departments into divisions, grouped in terms of either product or geography.²¹

In order that we may more precisely define the terms centralization and decentralization we will turn to the definitions of some noted authors:

Newman states that:

...In connection with administration, centralization (decentralization) may refer to (1) departmentalizing activities, (2) location of actual performance, or (3) the level in the administrative hierarchy at which operating decisions are made.²²

Owens thoughts are:

Decentralization in the authority to make decisions represents a middle course between local autonomy and centralization. It provides for central determination of basic policies, objectives and programs and the vesting of authority in divisional executives for planning and decision-making within the scope of the broader policies and objectives. Each divisional executive is given much authority to formulate policies for his division and to make decisions in carrying out company programs. Likewise, executives working under the division executives may have considerable freedom in making decisions within the areas of their authority. However, the delegation of authority all the way down the line is not an essential feature of decentralization.²³

The proceedings of an international study-conference organized by the Netherlands School of Economics made the following statement:

Centralization and decentralization may refer to the geographic dispersal of activities; or the terms may be used in the sense of functional centralization, and respectfully decentralization, in which case the terms refer primarily to the authority relationships existing between the various management levels or the organization and imply, as such, the process of delegating managerial powers and responsibilities

²¹Louis A. Allen, "The Urge to Decentralize," Dun's Review and Modern Industry, LXX, No. 5 (Dec., 1957), p. 41.

²²William H. Newman, Administrative Action (New York: Prentice-Hall, Inc., 1951), p. 202.

²³Richard N. Owens, Introduction to Business Policy (Homewood, Illinois: Richard D. Irwin, Inc., 1954), p. 136.

from the top of the hierarchy to executives down the line (the nature of the management process).²⁴

Dr. Pfiffner and Dr. Presthus put it this way:

Decentralization is an honorific symbol in American administration. It is often used as a synonym for democratic or grass roots administration which seeks to strengthen local institutions and avoid a dangerous and stultifying concentration of power at the center.²⁵

Claude V. Swank says:

There are two kinds of decentralization, geographic and organizational. Organizational decentralization is the one that most, if not all, large companies can utilize to an advantage. It is essential to effective geographic decentralization, but also can be employed within one good sized plant. It can be combined with centralization to gain the benefits of each type of operation.²⁶

Peter F. Drucker believes that the popular usage of the term decentralization is vague. He describes functional decentralization as including decision-making at the lowest level, with authorities equal to responsibilities (an opposite to centralization), and functions being clearly defined.

However, he says that such conditions are mostly pious fiction below the very top, regardless of the impressions given by organization charts. He describes geographical decentralization as the dispersion of production units to bring the production nearer to raw materials and markets; cut transportation and labor costs; enable better service to the customers; and for reasons of security.²⁷

²⁴H. J. Kruisinga (ed.) The Balance Between Centralization and Decentralization in Managerial Control; proceedings of an international study-conference organized by the Netherlands School of Economics at Rotterdam (Leiden Netherlands: H.E. Stenfert Kroese N.V., 1954), p. 3.

²⁵Pfiffner and Presthus, op. cit., p. 212.

²⁶Claude V. Swank, "Some Principles of Decentralized Operation," Organizing for Efficient Production: Production Series, No. 176. (New York: American Management Association, 1948), p. 3.

²⁷Peter F. Drucker, The New Society, (New York: Harper and Brothers, 1950), p. 267.

At this stage it is believed that the terms centralization and decentralization can be adequately defined at least for the purpose of this study. It is deemed mandatory that some distinction be made between geographic and managerial centralization and decentralization.

Definition of Centralization

Geographic Centralization.--An organization is said to be geographically centralized when its plant facilities, raw materials, markets and personnel are concentrated in one local area. Any deviation from this hypothesis connotes some degree of geographic decentralization or divisionalization.

Managerial Centralization.--An organization is said to be managerially centralized when authority, responsibility and decision-making is concentrated in the one person at the top of the hierarchy. Any deviation from this hypothesis connotes some degree of managerial or administrative decentralization.

Definition of Decentralization

The antithesis of the definition of centralization is our definition of decentralization. It may be stated as follows:

Divisionalization or Geographic Decentralization.--An organization is said to be divisionalized when it's fundamental whole (plant facilities, raw materials, markets and personnel) is broken up to some degree into divisions grouped in terms of either product or geography.

The use of the term divisionalization is deemed more appropriate to give a more positive differentiation between geographic decentralization and managerial decentralization.

Managerial Decentralization.--An organization is said to be managerial decentralized when some degree of authority, responsibility and decision-making power is delegated.

After defining our terms we are still left with the question, "when is an organization decentralized?" From the definitions themselves one would conclude that all organizations are decentralized to some degree.

Measuring the Degree of Decentralization

It is not difficult readily to determine the degree of divisionalization. This is only a matter of determining the physical location of plant facilities, raw materials, markets and personnel with relation to headquarters.

Our problem of major concern is measuring the degree of managerial decentralization. Traditionally, many of the early business writers described the average enterprise of their day as a one-man business, run by the owner-manager. But today, even in closely held big companies, the situation is different. The history of modern corporate management is one of a steadily increasing search for ways of avoiding the bottleneck of one-man rule. The larger the company the more urgent is the problem of decentralization, for an increase in size increases the number and difficulties of decisions faced by top management. However, size alone is not the prime consideration, for as Ernest Dale states:

...it should be noted that the need for decentralization does not necessarily increase in proportion with size. Other factors play an important role, such as complexity of operations, variety of products and geographic dispersal. Thus a very large company manufacturing a single, simple item might have less to gain by decentralization than a considerably smaller company manufacturing diverse types of complex technical products which it sells in diverse markets.²⁸

The degree of managerial decentralization is determined by the extent of the delegated authority and the character of the decisions made. This varies between the completely autonomous units to a one-man business where all decisions and most of the work are assumed by one man.

²⁸Ernest Dale, Planning and Developing the Company Organization Structure (New York: American Management Association, 1952), p. 98

A study of the Chicago Field Offices of the Department of Agriculture presumed that decentralization was good in principle, but since centralization and decentralization are terms of degree and only their extremes are recognizable, measuring becomes very difficult. The director of the study gave several criteria which can be indicators of the amount of decentralization being practiced. The unitary type of field organization itself is an indication of decentralization. Here an officer in the field has general organization-wide coordinating and directing authority, reporting to the central office, to whom all field offices in a given area report. Since coordinating authority at any level requires discretionary action, coordination in the field assumes considerable decentralization. However, decentralized authority diminishes when the specialists in the field consult directly with their technical superiors in the central headquarters. Other indicators include: The frequency with which field offices refer matters to the headquarters for decisions; the number and specificity of general regulations on special directions under which field agents work; the nature and diversity of duties assigned to the field unit; and finally the amount of detailed arrangements for appeals from decisions made by the decentralized field units.²⁹

The real acid-test of managerial decentralization is the degree to which executives participate in decision-making. This brings up the important question again: Which powers does the chief executive reserve for himself and which does he delegate to his subordinates? We may say that the degree of managerial decentralization is greater when:

1. The greater are the number of decisions being made lower down in the management hierarchy.
2. The more important are the decisions made lower down the management hierarchy.

²⁹Truman, op. cit., p. 56.

3. The more are the functions affected by decisions made at lower levels.

4. The less is the checking required on the decisions. Managerial decentralization is the greatest when no checking is required; less when superiors have to be informed after a decision is made; still less if superiors must be consulted before the decision is made.³⁰

The degree of managerial decentralization varies from complete central control to almost complete autonomy. Newman describes a "limited" decentralization as that which exists where the policies, programs, and major procedures are decided in top echelons; the applications of these to specific situations and the detailed day-to-day planning are delegated down the line to the first or second level of supervision. This was characteristic of Ford for many years. The same arrangement exists between Washington and field offices of many governmental departments and agencies.

Now that some common terms have been established it is time to delve into the specific arguments for and against decentralization.

³⁰Ernest Dale, Planning and Developing the Company Organization Structure, Research Report No. 20 (New York: American Management Association, 1952), p. 107.

CHAPTER III

ARGUMENTS FOR DECENTRALIZATION

The arguments for divisionalization or geographic decentralization are basically economic and for the purposes of this study it will suffice merely to mention that when it is economical to divisionalize the solution lies in the facts of the case at hand. Facilities, material, labor, transportation, etc., are all criteria for making the decision. It is obvious that organizations are in business either to make a profit as in the case in industry, or to render a service as is the case in government. To say that decentralization will produce more profit or improve service for less cost is nebulous.

The search for improved organization structure, administration, and management dictates the desire to seek an optimum degree of managerial decentralization. Central decisions that fail to take into account variations in local needs or customs have sometimes been ignored by local management. Recognition of this and other limitations undoubtedly has been an important factor in the recent interest in decentralization, since the move away from centralization has been initiated from the top rather than from the lower echelons seeking more responsibility.

The larger the size of the organization; and the more numerous the decisions to be made, the longer it will take to make decisions at the top echelon where they accumulate. The managerial gap between top executive leadership and the level of operations increases. Top management can acquire less and less by personal direction and supervision - the information and understanding that are required for sound, detailed decisions covering problems on lower levels. Managerial decentralization places the decision-making unit at the lowest

competent level, which means as close as possible to the action level. Certain advantages may accrue to the organization that follows this procedure, they are, in the words of Dale:

1. Executives will be nearer to the point of decision-making. Delays of decisions, caused by the necessity of checking with headquarters and/or top officials, are reduced by managerial decentralization. Since people on the spot know usually more about the factors involved in the decisions than those further removed (by physical distance and authority), and since speedy decisions may often be essential (competitors may move in otherwise), such a delegation of decision-making is advantageous. It also saves the considerable expenditure of time and money involved in communications and consultation before the decision is made. These savings may increase as the geographical dispersion, and the volume of company activities increases...

2. Efficiency may be increased because there may be a better utilization of the time and ability of executives, some of whom may formerly have shunned responsibility as much as possible, "going to headquarters" automatically, as soon as any problems came up.

3. The quality of decisions is likely to improve as their magnitude and complexity are reduced, and as major executives concentrate on the most important decisions. As General Eisenhower points out "full concentration on the chief problem at hand makes it possible to solve it; the detail should be handled lower down the line. I never fired a man for delegating responsibility, but I did fire men who held the reins too tight and irritated others by their preoccupation with minutiae."

4. The amount of expense of paperwork by headquarters staff may be considerably reduced by delegating decision-making. For example, in a medium-sized company the regional managers formerly had to check most of their major decisions with headquarters. It took from ten to thirty days before a decision was obtained. The transfer of a clerk from one division of regional headquarters to another required eight signatures. Now only three are needed - all from the regional headquarters, as an overall result, headquarters staffs have been cut considerably.

5. The expense of coordination may be reduced because of the greater autonomy of decision-making. This requires the establishment of a clear-cut framework of general company policy within which the subsidiary units can make their decisions. For example, at Sears, Roebuck and Co., the establishment of such a policy has resulted in a considerable reduction of the coordinating staff, with greater freedom of action of the individual stores. Sears, Roebuck has emphasized adaptability and ability to carry out simple procedures worked out at headquarters. In this way risks are considerably reduced. A store manager cannot go far wrong on merchandise selection, for example, because this is done for the most part by top experts at the head office. All he had to do is a good selling job, for which he has the most incentive.³¹

³¹Ernest Dale, Planning and Developing the Company Organization Structure. (New York: American Management Association, 1952), pp. 111-112.

The need for managerial decentralization is illustrated by Mr. Ruben B. Robertson, former Deputy to the Secretary of Defense. In a memorandum to the Secretaries of the Army, Navy, Air Force and Assistant Secretaries of Defense, Mr. Robertson said that the general principle of decentralization of authority and responsibility is especially applicable to the business-type operations which must rely upon individual manager competence and initiative. The principle of decentralization must be zealously pursued and continually reviewed to achieve that fine balance between top level control and flexibility of operations at the local and intermediate levels. Supervision and control of these activities should be limited to those required to assign mission, provide guidance, and assist positive overall results.³²

General McNamara, former Quartermaster General of the Army and now head of the new Defense Supply Agency, further amplifies the policy trend toward managerial and geographic decentralization by indicating that one of the broad principles of his system-wide organization is the decentralization to major subordinate commanders of operating functions, and delegation of the appropriate authority to do the job commensurate with the decentralized responsibilities.

When men of such stature as these see managerial decentralization as a management tool, it is difficult to question the validity of the merits of decentralization when used with good judgement.

More than a decade ago, David Lilienthal pointed out that "methods and procedures must be developed to make certain that administration of essential national functions shall not become so concentrated at Washington, so overpowering in size and so distant from the every-day life of ordinary people as

³²Reuben B. Robertson, "Delegation of Authority to Business-Type Activities of the Department of Defense Support Establishment," Memorandum, Office of the Secretary of Defense, March 23, 1956.

eventually to undermine confidence in all governmental activities."³³ As he saw it, the nation is faced with a dilemma, the need for strong central power on the one hand and the ineffectiveness of over-centralized administration on the other. The dimensions of the problems of administration in the Federal Government can only be suggested. The problems involve over sixty-five agencies with approximately two million employees, scattered through the country as well as overseas and in many foreign nations. A highly centralized form of administration could not possibly cope effectively with this range of activities. In order to serve the people, which in the final analysis is the function of democratic government, the agency must operate where the people are, in the field, where the problems arise and must be met face to face.

Graves supports the case for decentralization and states that "experience has clearly demonstrated that a governmental unit operating within the framework provided by the concept of a service state cannot adequately meet the needs of its citizens with a highly centralized organization."³⁴

The growth of the functions of the Federal Government in fields that relate to the welfare of individual citizens has been termed the rise of the "welfare state." Good or bad, this growth in government affairs has resulted in a growing awareness of the need for decentralizing responsibility and authority to the field offices.³⁵

Goodrick cites the high degree of decentralization of the War Production Board in authority to grant priority ratings and the issuance of ration

³³David E. Lilienthal, "Administrative Decentralization of Federal Functions," Advanced Management, V (Jan-Mar, 1940), p. 3.

³⁴William Brooke Graves, Public Administration in a Democratic Society (Boston: D.C. Heath Co., 1950), p. 63.

³⁵M. George Goodrick, "Integration vs. Decentralization in the Federal Field Service," Public Administration Review, IX (Autumn, 1949), p. 272.

certificates by local OPA boards during World War II, which made the administration of such controls more acceptable. He also notes the scarcely less important factor of the desirability of performing the service or function with the greatest economy of effort and expense, since with every referral of the problem upward in the administrative hierarchy, the workload of the agency concerned is increased.³⁶

Experience has shown that excessive centralization of administrative authority causes interminable delay in arriving at decisions and implementing them in the field. Delay in the field not infrequently spells defeat for a program. Administrative delays are bound to cause public dissatisfaction with any program and eventually may lead to loss of public support and interest. This is fatal to most programs.

The increasing number and complexity of the functions of the Federal Government have resulted in a tremendous growth and elaboration of the Federal administrative machinery throughout the country. As Truman states, "federal authority now makes demands upon the farmer and business man, performs services and enforces requirements in the countryside and market place which bring it into contact with the citizen with an intimacy which but recently was known even in times of war."³⁷ Successful administration of programs which touch the daily lives of the citizenry calls for decentralization.

Decentralization is necessary if a program is to be carried out efficiently, that is, with the consent and cooperation of those whom it affects.³⁸ Truman cites another factor which demands decentralization, namely the conflict

³⁶Ibid., p. 274.

³⁷Truman, op. cit., p. 5.

³⁸Ibid., p. 6.

between administrative effectiveness and the theory of rigid federalism.³⁹ In the past there have been some fears that the continuing increase in the functions of the national government will destroy the federal system by eliminating the states as effective units of administration. In general, administrative decentralization is essential to the coordination of state and federal aspects of a function which both levels of government perform.⁴⁰

Problems of adjusting national policies to local physical and economic peculiarities are among the factors supporting decentralization. "When a national policy affecting local areas is adopted, the administrators must consider that the success of a national determination depends upon the successful adoption of administration to the peculiarities of all these problem areas."⁴¹ Unless national programs can be carried out successfully in each locality, the entire program is bound to fail and ceases to be national in scope.

The best available summary of the general advantages of decentralization has been made by Denson.⁴²

Among the specific arguments for decentralization cited by Denson are the following: speed and efficiency, internal coordination and responsibility, administrative experimentation and adaptation, external coordination, development of executive personnel, economy of operations, reduction of administrative detail at the central office, and improvement of public relations. Each will be discussed briefly and in turn.

³⁹Ibid., p. 8.

⁴⁰Ibid., p. 9.

⁴¹Ibid., p. 10.

⁴²George C. S. Denson, "A Plea for Administrative Decentralization," *Public Administration Review*, VII (Summer, 1947), pp. 170-178.

Speed and Efficiency

One of the most important arguments for decentralization, both divisionalization and managerial, is the resultant gain in speed and efficiency. Various types of delay and red tape are eliminated by doing away with the requirement of frequent referrals to the central office. Delay is inevitable, as Benson says, "when members of the central office staff are required to pass on cases with which they are not personally familiar, when cases must be cleared with separate staff divisions in the central office even after having been cleared with regional levels of some divisions, when too many persons with little or no immediate interest contribute their viewpoints on each field problem."⁴³ Such procedures cause a waste of time in settling the field problem as well as a waste of time for the central staff. Delegation of authority relieves the congestion of work at the central point. By reducing the amount of details it tends to emphasize the planning and policy activities in the central office, thus eventually leading to greater overall efficiency. By permitting the field office to dispose of the problems at the place where they arise, a similar gain in efficiency may be expected. The local office is then able to make and enforce prompt decisions.

Internal Coordination and Responsibility

Effective decentralization furnishes a sound basis for the development of internal coordination and responsibility. It encourages cooperation among the various specialists at the lower levels of administration. Benson believes that it also tends to develop "a sense of responsibility in the operating head" of the office by removing the dependency on the central office for instructions

⁴³Ibid., p. 171.

and decisions.⁴⁴ There can be no "passing the buck." There will be greater incentive for solving problems without delay and to take the initiative in the solutions of these problems. With the exercise of this responsibility there is usually growing cohesiveness of efforts within the organization, since subordinates will be held responsible directly to the operating head of the office. Coordination or cohesiveness of activities is thus a direct result of the delegation of responsibility for a program.

Administrative Experimentation

Benson points out that experimentation on new ideas and more efficient methods of administration and organization are more likely to occur in decentralized operations, where a promising idea may be evaluated before being widely adapted.⁴⁵ In addition, decentralization permits more adequate adjustment to the operating needs of the service which usually differ at each principal location. The central agency naturally tends to be conservative in its approaches to administrative problems since it must think in terms of the whole rather than of each part. It does not have the available information or the "finger on the pulse" of local conditions which the field office possesses. New improved methods of administration may well be developed in the field, eventually leading to the selection of improved administrative techniques for the entire organization.

External Coordination

By this term is meant contact and cooperation with local agencies of other levels of government. The more decentralized agencies have in general secured more intimate contact with state and local agencies.⁴⁶ While policy

⁴⁴Ibid., p. 172.

⁴⁵Ibid., p. 172.

⁴⁶Ibid., p. 172.

coordination must take place at the top level, coordination must come at the lower levels of the various governmental units involved. Coordination not only permits smoother and more effective functioning, but also the formulation of common policies as well as the improvement of techniques and procedures. Thus, it lends itself to a mutually beneficial association.

The Department of Agriculture has decentralized substantially as compared with the Department of Interior. In so doing the Department of Agriculture has secured an intimate contact with state and local agencies while the Department of Interior is strongly lacking in coordination with state and local levels of government.⁴⁷ Another example is the Bureau of Internal Revenue which is gradually decentralizing and simultaneously beginning to establish fruitful contact with state agencies.

Development of Executive Personnel

A mature administration must bring in at least some of its field experienced men into its central headquarters and to qualify these men for such positions it is imperative that the organization be decentralized. It must be remembered, however, that mere divisionalization does not insure the proper grooming of these potential staff men, they must have been delegated the necessary amount of authority and must have participated in decision-making.

There seems to be general agreement with Benson's argument that managerial decentralization aids in the development of all-around supervisors and executives. It gives them the opportunity to learn through experience in field and regional offices the integration of the ideas of various staff specialists to produce a workable and satisfactory administrative program.⁴⁸ Field offices

⁴⁷Ibid., p. 172.

⁴⁸Ibid., p. 173.

have proved effective training grounds for supervisory and executive personnel. Unless authority is delegated there can be no development of this type of personnel which is needed so badly in government today. Experience is essential for such development. The mark of an administrative expert is his ability to anticipate and plan remedial action before the situation has deteriorated too far. It is a feat of management to forestall the unpleasant rather than to solve problems brought about by previous neglect. Executives, however, are neither born nor made overnight. The development of executive personnel is a problem of primary concern to both business and government. It is maintained here that decentralization affords training grounds for such personnel in the field by permitting the exercise and demonstration of executive capabilities.

Economy of Operations

Benson believes that decentralization will permit the settling of normal routine cases on the lower level in the field service, and that the elimination of the consideration of such cases by several levels of reviewing officials is effective in saving time and manpower.⁴⁹ Each referral of a problem upward in the administrative hierarchy adds to the workload and consequently increases staffing requirements. Decentralization permits a reduction in the staff at higher levels and in the central office. It facilitates more economical operations in the field as well since it permits more adequate adjustment to the local operating needs.

Reduction of Administrative Detail at the Central Office

Decentralization removes a vast mass of detailed, routine work from the central office. The central office is thus confined to "general staff activities," concentrating upon the establishment of main policies and upon supervision of the

⁴⁹ Ibid., p. 173.

operating offices.⁵⁰ It thus affords the central office more time to plan and supervise by keeping out the bulk of operating detail. "Military agencies and some civilian agencies have demonstrated that thinking and doing can be separated if the essential interconnections are not lost, and that both benefit by the separation."⁵¹ Thus executives are prevented from getting bogged down in administrative detail and paper work.

Improvement of Public Relations

This is one of the most important supporting arguments put forth by Benson⁵² since in Government, the basic problem is to provide certain services (and where possible to improve these) to the customer - the citizen. In decentralization, this service function is recognized as the basic idea of bringing the function closer to the people involved. The field official who is running a decentralized program is on the spot.⁵³ He sees the problems and the practical solutions. He introduces the "human element" in place of the disinterested, distant central office. Decentralization also tends to eliminate suspicion and resentment in the field against "headquarters thinking" and control. It affords an opportunity to improve the morale by breaking down the sharp distinction which tends to develop between the central agency and the much larger field staff. Better employee - supervisor relations also result, since supervisors cannot evade solutions of problems by proposing dependence upon headquarters for decisions.

⁵⁰Ibid., p. 173.

⁵¹Ibid., p. 173.

⁵²Ibid., p. 174.

⁵³Ibid., p. 174.

The relations between the public and governmental agencies is of great importance, politically and socially. The Selective Service carried out a most unpopular job with a minimum of criticism mainly due to its being administered through a highly decentralized system.⁵⁴ Experience seems to indicate clearly that there is a high correlation between public cooperation in a program and the degree of decentralization in the administration of that program. T.V.A. is an outstanding example of this.

Having presented the arguments for decentralization it is necessary to investigate the arguments against it.

⁵⁴Ibid., p. 174.

CHAPTER IV

ARGUMENTS AGAINST DECENTRALIZATION

Despite the overwhelming arguments presented in favor of decentralization, the Federal Government and most state governments are still highly centralized. In general, the American federal bureaucracy keeps a close control of power. Some of the reasons why this is true are discussed below.

Newman indicates that some of the important advantages of centralized administration include: The use of less skilled personnel in subordinate positions; widespread application of unusual knowledge or judgement which may be possessed by top executives; and the regulation of quality, service, and risk. These are not necessarily limited to small enterprises where the chief executives can do most of the planning and keep in touch with all that goes on. A large successful restaurant chain in New York City operates with a highly centralized management; managers of individual lunch rooms or their subordinates have little opportunity to exercise judgement or initiative.⁵⁵

This places emphasis on the "tailor-made" concept of applying decentralization to a particular business. In specific cases it may not be necessary or desirable to withstand the cost and risk of developing managers at lower levels. Succession to top executive positions may come entirely from without and not within the organization.

Truman cites four imposing obstacles to administrative decentralization which may be summarized as follows: (1) The influence of tradition and the lack of conscious adoption to the factors of a changing environment, (2) the exigencies

⁵⁵William W. Newman, Administrative Action (New York: Prentice-Hall, Inc., 1954), p. 204.

of central control, (3) the related question of the influence upon decentralized subdivisions of localized pressure groups, and (4) the difficulty of coordinating decentralized functions.⁵⁶

There is a fear that methods of top control may be destroyed by excessive decentralization. Adequate uniformity must be maintained. The accountability of the public servant (to the legislature, court, agency, various officers) is a factor which causes reluctance to delegate. Decentralization also presents the danger that policies will be unduly influenced by localized groups and local representatives of national groups. Another problem is that of coordinating decentralized units. Means must be provided for reviewing the activities performed, of insuring uniformity of practices and procedures.

Thus we can state the primary disadvantages are: The increased difficulty of maintaining a nation-wide policy, of preserving uniformity, and the danger that weak central control will handicap coordination. Increased personnel costs are also likely since a decentralized system requires a high degree of competence on the part of its officials. It may be expected, however, that in the long run greater savings could be realized through more efficient administration.

Benson also bases his arguments against decentralization on four main points. These involve the dangers of political responsibility, weakened lines of technical control, lack of qualified personnel, and lack of uniform policy.

Political Responsibility

Benson states that opponents of decentralization stress the political dangers of giving field officers too much authority, which may lead them to make decisions which are politically perilous to the responsible bureau or department

⁵⁶Truman, op. cit., p. 12.

head.⁵⁷ The fear is that the blame would fall on the politically responsible department or bureau head in Washington.

There is also the danger of undue influence by local pressure groups and local representatives of national groups. There can be little doubt that local pressures constitute a sizable difficulty in the way of efforts toward any type of managerial decentralization. However, as Truman states, this problem can be overcome "by the exercise of ingenuity in developing safeguards for decentralization through control mechanisms, positive personnel work, personal conferences, and the like."⁵⁸ Also, often the career man in the field is not sympathetic to the political views of the current administration. This is cause for a high degree of managerial centralization.

Weakened Lines of Technical Control

Critics also point out problems of coordinating decentralized units, and the dangers of weakened lines of both central and technical control. Benson states that some technical specialists feel they cannot control their particular work without direct control of administrative operations.⁵⁹ They seem to fear that the importance of their technical lines will not be recognized by the field and therefore insist on central review of all actions. It cannot be denied that a problem of coordination arises out of decentralization.

Most directors feel that they must know all that is going on intelligently to answer to their next superior. This is especially true in the case of technical specialists. Often times the decision can only be made after a careful analysis of highly technical aspects.

⁵⁷George C.S. Benson, "A Plea for Administrative Decentralization," Public Administration Review, VII (Summer, 1947), p. 174.

⁵⁸Truman, op. cit., p. 15.

⁵⁹Benson, op. cit., p. 175.

Lack of Qualified Personnel

This is another argument against decentralization.⁶⁰ It is true that decentralization requires a high degree of competence on the part of both operating and supervisory officials. Authority is with-held from offices because it is believed that the staffs are incompetent to exercise authority. Another serious handicap in government is the limited salaries for highly qualified personnel. All too often competent personnel, having been trained as effective managers, leave the organization for higher salaried positions.

A policy of continued central control, however, will merely aggravate the problem of lack of qualified personnel.

Lack of Uniform Policy

The lack of a uniform policy is also feared as a result of decentralization.⁶¹ The main question is whether a program will benefit more from strict uniformity or from "the flexibility and experimentation," the facilitation of local adaptations, and the development of initiative encouraged by decentralization.⁶² There is no question of the fact that decentralization of authority results in varying interpretations of statutes and regulations. The desire to insure uniform policies is supported by both political and legal considerations. Congressmen, newspapers, and pressure groups often find that the interpretation of a regulation in their region is less favorable than its interpretation in another region. This places the central office in an embarrassing position. Another powerful force working towards centralization is the fear that an act or regulation will be held unconstitutional. This forces approval of field actions by the central office.

⁶⁰Ibid., p. 175.

⁶¹Ibid., p. 175.

⁶²Ibid., p. 175.

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Inadequate Use of Staff Personnel

In this day and age of staff experts, both difficult to locate and high priced, it is imperative that their talents be utilized to the very maximum. More often than not these experts can only be positioned at the highest level within the organization. With decentralization, men in the field may feel they no longer need to utilize headquarters advice. They often ignore advice they consider unwarranted. The headquarters staff may be only partly utilized and its effectiveness will be impaired. Helen Baker, associate director of Princeton's Industrial Relations Section, states:

As the situation exists, the divisional industrial relations managers do not always refer problems to the corporate staff which they should. In some cases the corporate staff hears only indirectly about action, which the corporation staff considers poor industrial relations, taken by plant or divisional industrial relations personnel.⁶³

The Application of Technological Breakthroughs

Another factor which is rapidly causing a trend towards centralization is in the area of EDP and machine application in general. Organizations which are large enough to employ such techniques are finding it necessary to centralize many functions in order that the maximum benefits may be derived from their investment in the system. Machines are capable of performing faster, more precisely, and more efficiently than customary methods. Also recent technological breakthroughs in rapid communications enable organizations to centralize to a greater degree than ever before.

No concept of course, reaches perfection. There will be, in individual agencies, special problems or situations which may determine the success as well as the possible extent of decentralization. Certain general factors used in meeting such problems are discussed in the following chapters.

⁶³Helen Baker and Robert R. France, Centralization and Decentralization in Industrial Relations (Princeton, N.J.: Industrial Relations Section, Princeton University, 1954), p. 40.

CHAPTER V

DEVELOPMENT OF CRITERIA FOR A DECENTRALIZATION PHILOSOPHY

Before resolving the conflicting points of view in the arguments for and against decentralization, it is considered advisable briefly to investigate the Hoover Commission Recommendations on the subject.

The Hoover Commission Recommendations

Certain principles of effective administration and reorganization are readily apparent in all the reports of the Hoover Commission: (1) It is imperative to fix and define responsibility for the various duties and responsibilities of the executive branch; (2) persons to whom such responsibilities are assigned must be given sufficient authority to act in order that their work be carried on efficiently and effectively; (3) it is essential to establish controls which will insure that those who have authority to act are acting within a framework of standards set by the Congress and by the President of the United States.⁶⁴

The amount of public interest and discussion aroused by the reports and recommendations of the Hoover Commission are a heartening sign to all students of public administration who are concerned with the sound administration of their government. A basic foundation for the future American democracy is a sound administrative system, able to discharge with competence and integrity the tasks laid upon it. The need for reorganization arises from the steady increase in administrative functions, the establishment of the leadership of the executive branch, the growth of new and large corporations, and from the necessity of

⁶⁴Arthur S. Fleming, Reorganization and Federal Personnel. (Speech before Citizens Committee for Hoover Report, 18 August 1949).

THE HISTORY OF THE CITY OF BOSTON

THE CITY OF BOSTON, AS IT WAS IN 1630, AND AS IT IS NOW, WITH A DESCRIPTION OF THE CITY AND ITS SURROUNDINGS, AND A HISTORY OF THE CITY FROM 1630 TO THE PRESENT TIME.

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adapting present structures and relationships to current operations.

In discussing the Federal field services, the Hoover Commission pointed out that the business of the Federal Government is primarily transacted by the field services, and that nearly 90% of all Federal employees work outside of Washington. It felt that there should be some government officials responsible for constant study and simplification and coordination of departmental work in the field. The following deficiencies were found:⁶⁵

- a. Too many separately organized, highly specialized field offices representing individual departments, their bureaus, and even different units of one bureau.
- b. The ineffectiveness of field offices in dealing with operating problems because headquarters failed to delegate authority.
- c. Confused lines of direction and supervision between headquarters units and the field.
- d. Inadequate systems of reporting and inspection which prevent administrative officials from knowing how effectively and efficiently their field organization is performing.
- e. Lack of coordination among the various Federal field offices, both within the same agency and between different agencies.
- f. Failure to make the most of potential cooperation from state and local governments and private organizations.

In its concluding report, the Commission discussed the concept of decentralization under centralized control.⁶⁶ Specifically in the case of the Civil Service Commission it was felt that it was no longer conceivable that personnel transactions for two million employees could be processed centrally. Over-centralization of operations resulted in inefficient and expensive management. While recognizing that a considerable amount of decentralization had already taken place, the Commission found that further decentralization under proper controls was badly needed. This was a recurring theme in its various reports. It was recommended that in implementing decentralization, headquarters agencies

⁶⁵U.S. Commission on Organization of the Executive Branch of the Government, General Management of the Executive Branch (Washington: Government Printing Office, 1949), p. 42.

⁶⁶U.S. Commission on Organization of the Executive Branch of Government, Concluding Report (Washington: Government Printing Office, 1949).

concentrate their attention more and more on developing clear policies, to establishing standards of performance, and to improving their systems of reporting and inspection to insure that policies are carried out.⁶⁷

The Hoover Commission recommendations thus gave important support, as well as wide-spread publicity to the scientific principles of management which underlie the decentralization of management. As such they may well have conclusive results in extending the existing pattern of decentralization.

Resolving the Conflicting Points of View

With such convincing arguments in favor of decentralization, one cannot help but feel that some of its disadvantages could be savable or at least mitigated. The arguments against managerial decentralization can be reduced to three: It militates against uniformity of policy; it presupposes a group of professionally, politically and administratively capable capable men far larger than can be procured; it vitiates the effectiveness of specialist controls.⁶⁸

It cannot be denied that decentralization is not as conclusive to uniformity of policy as is centralization. Uniformity in its strictest sense is not capatable with creating an environment in which experimentation is encouraged and management is developed into top notch executives. With one, you cannot have the others. Therefore, an administrator must determine if his organization will benefit more by enforcing strict uniformity or from flexibility, experimentation and the training of management. What this really means is management must decide on the degree of decentralization which will produce optimum results by weighing the merits of both centralization and decentralization.

⁶⁷"The Hoover Commission: A Symposium," American Political Science Review, XLIII (October 1949), pp. 933-1000.

⁶⁸George C.S. Benson, "A Plea for Administrative Decentralization", Public Administration Review VII (New York: Summer, 1947), p. 175.

the possibility of a general theory of the social sciences, which would be able to explain all social phenomena. The author argues that such a theory is not only impossible but also undesirable, as it would lead to a loss of individual freedom and the suppression of human values. He concludes that the social sciences should focus on understanding the complexity of human behavior and the role of individual agency in social processes.

THE LIMITS OF RATIONALITY IN SOCIAL SCIENCE

The author discusses the limitations of rationality in social science, arguing that human behavior is often driven by emotions, instincts, and social norms rather than pure reason. He critiques the idea of a rational actor model, which assumes that individuals make decisions based on a calculation of costs and benefits. Instead, he suggests that social scientists should adopt a more holistic approach, taking into account the cultural, historical, and psychological context of human actions. This approach would allow for a more nuanced understanding of social phenomena.

The author further explores the concept of rationality, noting that it is often used as a justification for social and political policies. He argues that this can be dangerous, as it may lead to the neglect of human values and the imposition of a single, rational perspective on a complex world. He calls for a more pluralistic approach to social science, one that recognizes the diversity of human experiences and the importance of qualitative research methods. By doing so, he believes we can develop a more comprehensive and useful social science.

The political pros and cons are not quite so mutually exclusive. In some cases the marked advantages of a friendly clientele and of more intimate contact with large citizen groups, which results from strong field offices, might out-weigh the danger of mistakes being made by the field directors. Field management cannot be developed without giving them responsibilities with commensurate authority. Able field officers as well as a reservoir of central office administration depends upon the degree of decentralization.

Another controversial aspect of decentralization concerns the relative dominance of specialists and line administrators. George Benson states that this problem is by no means insoluble and can be worked out if planned beforehand.⁶⁹ This problem will be discussed later in this chapter.

David E. Lilienthal, who had conducted extensive experiments with regionalism and decentralization has stated that they are both valuable in public democratic management.⁷⁰ Centralization is no mere technical matter of management, of bigness versus smallness.

In Barnard's opinion survival of any type of organization depends upon two general factors: "(1) The effectiveness of the system of governance as respects the external relations of the organization; and (2) its internal efficiency, that is its capacity of securing cohesiveness, coordination, and subordination of concrete facts."⁷¹ With certain limitations, this may be said to hold true of our Federal Government, which, governed by practical need, has adopted its machinery to new requirements and to effectuating the desired ends of its activities.

⁶⁹Ibid., p. 179

⁷⁰Albert Lepawsky, Administration (New York: 1949), p. 382.

⁷¹Chester I. Barnard, Organization and Management (Cambridge: Harvard University Press, 1949), p. 27.

the following: (1) the fact that the law is not a mere statement of fact.

(2) the fact that the law is not a mere statement of fact.

(3) the fact that the law is not a mere statement of fact.

(4) the fact that the law is not a mere statement of fact.

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(26) the fact that the law is not a mere statement of fact.

(27) the fact that the law is not a mere statement of fact.

Lepawsky points out that increased national functions have resulted in a necessary elaboration of the Federal administrative machinery throughout the country.⁷² Today Federal departments operate from approximately 2,000 Federal field offices located in 200 cities. Each network has developed independently. Approximately 103 separate Federal regional schemes exist, with the number of regions in each scheme varying from 1 to 307.⁷³

Complexity of organization in any system tends to stimulate certain problems of bureaucracy. Administrative organization thus is related immediately to the problems of government bureaucracy. Experience has demonstrated that elements of inflexibility, impersonality, and unwieldiness are inherent in any large complex system of administration. According to Dimock, these elements are the major cause of bureaucracy in government, while the main cure is devolution and decentralization of administrative power.⁷⁴ The cure for the accompanying evils of bureaucracy thus leads directly to decentralization of various functions. To do this without sacrificing the advantages of large-scale organization, central coordination, and unified planning is one of the major problems of modern society.

Decentralization must be carried on in such a way and with such a structure as to make for centralized policy control. The actual processes of decentralization must be fluid and reviewable. They must take place around a core of central authority. It is the desire to make government activities manageable which dictates the expansion of delegation called (managerial) decentralization.⁷⁵

⁷²Lepawsky, op. cit., p. 363.

⁷³Ibid., p. 364.

⁷⁴Marshall E. Dimock, The Executive in Action (New York: Harper and Brothers, 1935), p. 194.

⁷⁵Paul H. Appleby, Big Democracy (New York: Alfred A. Knopf, 1945), p. 98.

The American drive for efficient, systematic, and scientific management is found in government as well as in business. In government, however, efficiency may be subordinate to such higher considerations as community welfare, economic stabilization, resource conservation or national defense. Efficiency is not all the public wants or needs. In one field, however, that of administrative organization, the public exercises a strong interest. Here the public wants to know where and how efficiency can be obtained. This is attested to currently by the widespread interest in the Hoover Commission reports and the various Hoover Report Committees that have sprung up in many states and localities. The very size of government seems an obstacle to full realization of the demands for efficiency. Management engineers believe that the smallest organization with the latest techniques and tools are likely to be the most efficient.⁷⁶ Reduction in size at both central and field levels is possible only through the implementation of managerial decentralization. The generalization can be made safely that American experience in the science of organization and administration (in business as well as in government) indicates a ceaseless search for improved methods. The basic underlying motive therefor seems to be in a generally accepted idea that there is always a better way of doing something, and that it is always possible to improve upon currently used techniques. A decentralized program of administration is a logical development of this process.

It follows then that effective administration must be based on a sound structure of organization. It also follows that administration is most successful at the level closest to the people, and is in fact an outcome of historical principles of democratic administration, which tend towards decentralization of functions. Further, decentralized administration avoids the immensity and

⁷⁶David C. Coyle, "Size vs. Efficiency as the Engineer Sees It," Advanced Management, XIV (June 1949), p. 54.

inflexibility of a central bureaucracy which usually accompanies the growth of government activities.

Decentralization is employed in a political sense to refer to a Federal system, whereby governmental powers are divided between national and state executives and legislatures.⁷⁷ In administration is usually means delegation of authority to perform certain functions under the general direction of some central office or department. This delegation may involve a geographic factor, in which case federal administrative functions may be decentralized either to Federal field service areas or to the states, counties, and cities.⁷⁸ It may be the result of legislative action. The term "decentralization" has been suggested to cover the latter situation, which often is a mere delegation of capacity to act in the name of a central superior, and not a transfer of authority from him.⁷⁹

Various countries have decentralized to fit their needs. For example, Russia combines economic and social decentralization with a high degree of political centralization. Due to the vast territory in Russia they were forced into this.⁸⁰

Red China is presently in a turnabout, reversing some policies in a bid to shore up its economy. "It decentralized communes, reinstates managers..."

A quote from the Wall Street Journal:

...Red China is going through a serious erosion that has touched off desperate corrective measures. At fault in this crisis, observers agree, has been over-centralized control of city factories and agriculture communes, plus the elevation of untrained Communist Party functionaries to positions of management responsibility... Red China's leaders apparently

⁷⁷Lawrence L. Durisch, "The States and Decentralized Administration of Federal Functions," Journals of Politics, XII (February 1950), p. 4.

⁷⁸Ibid., p. 4.

⁷⁹Ibid., p. 4.

⁸⁰Albert Lepawsky, Administration, (New York 1949), p. 376.

recognize the cause of the trouble. In the last 12 months, communes have been drastically decentralized...⁸¹

Many scholars in the field of government select single minor aspects of decentralization and give them an emphasis that seems undeserved. Decentralization as a general phenomenon has fundamental significance, but degrees and forms of decentralization are for the most part technical details. Managerial decentralization must be carried on in such a way and with such a structure so as to fit the individual needs of the organization.

Two points regarding decentralization are, I believe, especially important. The first is that decentralization is a physical necessity - Therefore something which the public does not need to be much concerned to push, and a technical job of management which the public need not debate. The second is that Federal action programs can serve the national interest only if they are finally responsive to national political determination; because this is so, national decentralization should take place through a unified if dispersed organization, around a central core of direct national authority. This can be verified by the fact that the public is continually requesting more field offices be placed in their communities.

During the war many bureaus were forced to move out of the Washington area. They moved in their entirety, leaving the President without some of his important executives close at hand. A much more advantageous answer would have been decentralization which would have provided for more facilities where needed and still give the President direct access to his executives. An important factor to remember when decentralizing federal bureaus is the fact that the delegation of authority should not be made to the states but rather still hold

⁸¹The Wall Street Journal Vol. CLIX No. 24 (February 2, 1961)

these regional offices directly responsible to headquarters in Washington. To give the states the power of delegation of authority to these regional offices would not be in the interest of the department because under the constitution, the state governments are not a part of the national government. Where specific national purposes and interests are concerned, to farm out responsibility to fifty authorities not responsible to the national government is to abdicate responsibility and to insure national and administrative confusion. There are, however, some activities which can definitely be delegated to state entities. In these, the amount of influence nationally retained and exercised in difference to the national source of funds will vary according to the degree of difference between national interest and state interest. If this procedure were used it would no longer be construed to be a decentralized procedure in the true sense but rather a shift of responsibility from one organization to another.

No proper decentralization can take place except around a core of central authority. Nothing can be decentralized properly which has not first been centralized. The basic essential is controlability.

Thus we conclude that the degree to which an organization should decentralize depends upon several factors. It can be established only after careful study of the nature and mission of the organization and consideration of certain economy and efficiency factors. A discussion of some of these factors will follow.

Factors Concerning Decentralization

The Political Factor.--Much has already been said concerning the political ramifications related to the problem. Another consideration is the "curse of bigness." To many persons bigness is unattractive. Through decentralization, large organizations have a means to overcome the functional disadvantages of large scale operations. There is currently a trend in corporate policy to avoid

heavy concentration in one particular geographic area. This policy was motivated by the fear of the political repercussions when local plants were forced to make heavy employment cutbacks. Dale cites the General Electric Company which "limits its employment in any one community to a certain percentage of the employable population."⁸² With the rise of organized labor and its political contacts with governmental agencies, managements' problems in this field have grown. The expansion of business concerns into units so large as to minimize the personal touch with the worker is another cause of friction. In trying to solve this problem, many companies split up and move parts of their large plants to other locations. Hodges says:

The Sylvania Company decentralized production in a number of small scattered plants, all but five of which have fewer than one thousand employees. The smallest plant employs 230, and the largest about 2900. The improvements reported are more flexibility in operations, better employee morale and community relations, and superior executive development because of more independence of action. In the labor field, managers of the small plants are closer to the workers than was possible under the former centralized operations and management.⁸³

Delegation of Authority.--One of the most vital considerations in organization concerns decision-making, which is regarded by contemporary writers as the essence of administration.⁸⁴ The big question is who should make these decisions? Many must be made by low levels such as field directors. High administrative, political and strategical decisions should probably be centralized in order to maximize administrative responsibility to political leaders; but operation decisions should be decentralized to the lowest appropriate level. This demands the delegation of appropriate powers to these lower levels. There is a normal tendency for high ranking officials to retain this power for themselves, which cannot be accomplished in a decentralized organization.

⁸²Dale, Planning and Developing..., p. 115.

⁸³Henry G. Hodges, Management (Boston: Houghton Mifflin Co., 1956), p. 55.

⁸⁴Herbert A. Simon, Administrative Behavior (New York: 1947), p. 22.

Delegation is achieved by two methods; first by changing the behavior of people and, second, by following appropriate management practices. The individual can be trained and conditioned to delegate.⁸⁵

The organization which desires decentralization must spell out the authority and responsibility for each position in the management group. They must also standardize operations. Half-way measures are worse than no program at all since responsibility without accompanying delegated authority negates the very basis of the program. Until decisions are made in the field, there is no real managerial decentralization. Lillienthal warns that "decentralized administration is not necessarily established by the opening of a field office... Unless that office is staffed by persons of the stature and training to command respect, and unless they have had delegated to them authority and discretion to adopt the national program to local conditions, it is not decentralization."⁸⁶

In discussing the process of delegation Mooney states:

Delegation means the conferring of a specified authority by a higher authority. In its essence it involves a dual responsibility. The one to whom authority is delegated becomes responsible to the superior for doing the job, but the superior remains responsible for getting the job done. This principle of delegation is the center of all processes in formal organization.⁸⁷

We find three relationships existing in the process of delegation according to Newman. They are:

1. The assignment of duties by an executive to his immediate subordinates;
2. The granting of permission (authority) to make commitments, use resources, and take other actions necessary to perform the duties;
3. The creation of an obligation (responsibility) on the part of each subordinate to the executive for the satisfactory performance of the duties.⁸⁸

⁸⁵Pfiffner and Presthus, op. cit., p. 215.

⁸⁶Lillienthal, op. cit., p. 3.

⁸⁷James D. Mooney, The Principles of Organization (New York: and London: Harper and Brothers, Publishers, 1947), p. 17.

⁸⁸Ibid., p. 174.

The use of the word "responsibility" is truly ambiguous. Koontz and O'Donnell define the term as follows:

Viewed internally with respect to the enterprise, responsibility may be defined as the obligation of a subordinate, to whom a superior has assigned a duty, to perform the service required. The essence of responsibility is, then, obligation. It has no meaning except as it is applied to a person...

Responsibilities thus arise from the superior-subordinate relationship, from the fact that someone has the authority to require specified services from another person...⁸⁹

Delegation does not transfer final responsibility. The subordinate, who has been given a job, is responsible for performance and the superior is responsible for the results. The chain of correlated responsibilities is therefore linked from the chief executive, who has overall responsibility, down through the organization. The process of delegation and the principle of responsibility go hand in hand. According to Urwick, "the responsibility of higher authority for the acts of subordinates is absolute."⁹⁰

The chain of correlated responsibilities from level to level is referred to as the paradox of delegation. Robert Dubin highlights the paradox as follows:

In a real sense, then there is built into the very structure of authority in an organization the conditions making for critical and fault-finding relations with subordinates. At the same time, there is built into an organization a subservience to superiors arising from the structure of authority. These two conditions of organizations often give rise to considerable strain on personnel. The intermediate subordinate tends to be driving with respect to his own subordinates and fawning with respect to his superiors; the personnel in the middle levels of administration behave in mutually contradictory ways at the same time.⁹¹

Pushing Decision-Making Downward.--According to Alvin Brown organization must distinguish between planning, doing, and seeing as phases of administration.

⁸⁹Harold Koontz and Cyril O'Donnell, Principles of Management (New York: McGraw-Hill Book Company, Inc., 1955), p. 48.

⁹⁰L. Urwick, The Elements of Administration (New York: Harper and Brothers, 1943), p. 50.

⁹¹Robert Dubin, Human Relations in Administration, The Sociology of Organization (New York: Prentice-Hall, Inc., 1951), p. 273.

Planning is the determining of how to do it; doing is the performance or execution; and seeing is the verification that it is done, or confirmation.⁹²

Because it is good to specialize in the planning of some general policies, people occasionally jump to the conclusion that it is good to specialize in all planning; that there should be a "planning level" in the organization structure or a "planning and control" department. The implication which these followers of "spring fashions" would not admit is that one group should do all the thinking and everyone else merely carry out instructions. Brown calls this a kernel of truth grown into a tree of delusion, and gives a few simple truths to show it to be a delusion: (1) It is literally impossible to separate all planning from the job of doing something; (2) planning is done most effectively by the man who will carry out the plans; (3) to withdraw planning from the man who is to do the job will withdraw some of his incentive.⁹³

In government, power should be retained as closely as possible to the people affected because they have first hand knowledge of the situation, and because they are in a unique position readily to detect and correct abuses of power. In industry an individual is also uniquely qualified to resolve realistically such problems as come within the area of his experience. For that reason it is usually advantageous to make provisions for allocating responsibility as possible to people who are affected by it.⁹⁴

The idea of pushing the authority for decision-making down as far as possible has many advantages. Newman lists a few which are expressed more or less in detail by many other writers: (1) It relieves senior executives from

⁹²Alvin Brown, Organization (New York: Hibbert Printing Co., 1945), p. 91.

⁹³Alvin Brown, "Some Reflections on Organization: Truths, Half Truths, and Delusions," Personnel, XXXI, No. 1 (July, 1954), p. 35.

⁹⁴A.A. Stambough, "Decentralization; The Key to the Future", Dun's Review and Modern Industry, LXII, No. 2, (September, 1954), p. 55.

time consuming details; (2) it increases flexibility arising from the authority of junior people to make prompt decisions without awaiting approval from one or more supervisory levels; (3) it creates great interest and enthusiasm by employees on lower levels who, because of increased authority and responsibility, have more personal pride in their work; and (4) it acts in the development of junior executives for promotion to positions of greater responsibility. These advantages become increasingly important as a business grows in size, and account for the conviction of many modern executives that authority should be decentralized as far as operating conditions will permit.⁹⁵ The quality of decisions is likely to improve as their magnitude and complexity is reduced. Dale quotes President Eisenhower when he was Supreme Allied Commander in Europe during World War II:

Full concentration on the chief problem at hand makes it possible to solve it; the details should be handled down the line. I never fired a man for delegating responsibility, but I did fire men who held the reins too tight and irritated others by their preoccupation with minutiae.⁹⁶

Gulf Oil Corporation's President Whitford, who has a reputation for reshaping the corporation's management without creating a major upset, attempts to concentrate authority in the hands of executives who make day-to-day decisions. He says:

We want to advise our men without making them so afraid of mistakes that they will be afraid of decisions. We don't want to pull authority to Pittsburg. The men down the line know what is happening before we do, and speed is critical in exploring for oil, or purchasing it, or handling it. We don't want to miss chances.⁹⁷

It can be readily appreciated that the mere pushing of decision-making

⁹⁵Newman, op. cit., p. 207.

⁹⁶Ernest Dale, Planning and Developing the Company Organization Structure. Research Report No. 20 (New York: American Management Association, 1952), p. 110.

⁹⁷Herrymon Maurer, Great Enterprise--Growth and Behavior of the Big Corporation (New York: The Macmillan Co., 1955), p. 252.

down to lower levels does not assure action or effective results. To give a man authority will not assure that he will use it wisely or use it at all. Perhaps this is the apex of the management skill; the art of creating a desired reaction from other human beings; the "art of delegation", which truly requires skill in performance and ingenuity; acquired by experience, study and observation.

There are various ways of selling the line executive to the point that he will do, willingly and ably, what it has been decided with him that he will do. One sure fire way is that lower levels of management will do what higher levels of management inspect. The amount of attention given to a certain activity by higher management is reflected down the line rapidly. Inquire regularly about their work in these activities and you can be sure they are receiving attention. "Interest begets interest."⁹⁸

George E. Willis, of Lincoln Electric Company, is one of the group who believes that "crises create leaders." He says that to create a crisis atmosphere in which most development is obtained, a superior's instructions should be brief and general depending upon how certain he is of the subordinate having the requisite knowledge to do the job. He makes his point by illustrating how Mr. Lincoln placed him in charge of the Electrode Division which produced 60% of the company's output, when he was an engineer with the company for less than four years, with no previous industrial experience. Mr. Lincoln merely said that Willis was responsible to him for the men, the machinery, and the plant; and to the customers for the product; to contact him when Willis felt his experience would be useful; and keep him informed of anything out of the ordinary that took place. George Willis claims that the process of developing leaders by crisis, by complete delegation of authority and responsibility, by real belief in the latent abilities waiting in everyone to be awakened has been proved at Lincoln

⁹⁸Lawrence A. Appley, Management in Action (New York: American Management Association, 1956), pp. 116-119.

Electric Company.⁹⁹

A more conservative view is expressed by Mathew M. Gougar, Vice-President of General Aniline and Film Corporation, who says that the argument is often advanced that the front line supervisor will perform better when he has full authority, but this is questionable because he recognizes his inability to grapple with all the complexities of his job. Decentralization proponents might answer this by saying that the only way to develop a subordinate is to give him full authority. This is comparable to tossing someone into the deep water to teach him to swim; an idea abandoned long ago. Some prominent industrial leaders and proponents of managerial decentralization are recognizing that certain organization functions can be more efficiently performed under centralized control or administration. As technical innovations provide unheard of efficiencies, concepts of managerial decentralization need reexamination.¹⁰⁰

Perhaps the first consideration in the delegation of responsibility is the selection of those to whom authority is to be granted; the process of training those men within the organization or finding new men to replace those who cannot be trained for future requirements. Thus, there is the problem of improving performances of those who exercise executive responsibility. They are provided with staff assistance, accounting data for up-to-date information, business specialists, and research studies. Statistical data beyond the capacity of the individual to absorb are analyzed, summarized, and made available in convenient form to the business executive. He has probably been assigned goals or quotas to achieve, and a budget under which he must live while he struggles to

⁹⁹Edward C. Bursk, (ed.) The Management Team (Cambridge: Harvard University Press, 1954), p. 215.

¹⁰⁰Mathew M. Gougar, "Decentralization: Fact or Fancy", Dun's Review and Modern Industry, LXIX, No. 7 (May, 1957), p. 12.

accomplish his objectives.¹⁰¹

All this should create a climate for growth of the ideal executive; however, no amount of information or staff assistance can establish the human relationships which are the real problems of the executive. Until an executive has found a way to develop understanding and confidence between his associates, he has not developed the leadership qualities which will carry him to positions of greater responsibility. Therefore, management is faced with its greatest problem: How do we find the potential executive who is willing to accept responsibility and is prepared to make the hard decisions which result? The easy path is by assigning responsibility to a specific executive with no further concern except to replace him if he fails. Such a system may work for awhile, but it will never develop a flow of competent executives from bottom to top, or a happy executive team.¹⁰²

It may be well to note at this point that most companies refer to the process of managerial decentralization as the pushing of authority down from top-management to the next level of operating management, where it commonly stops. They end up with centralization, more than had existed before, at the lower levels.¹⁰³ A reaction such as this developed in the Netherlands postal districts which created an unsavory situation as illustrated by Professor H.W. Ouwleen of the Netherlands School of Economics.¹⁰⁴

The essence of the doctrine of decentralizing management's authorities and responsibilities is the delegation of decision-making down through the

¹⁰¹Bursk, op. cit., p. 8.

¹⁰²Ibid., p. 9.

¹⁰³Allen, Dun's Review and Modern Industry, LXX, No. 6, p. 42.

¹⁰⁴H. J. Kruisinga, (ed.) The Balance Between Centralization and Decentralization in Managerial Control (Lieden, Netherlands: H. E. Stenfert Kroese N.V., 1954), pp. 101-111.

corporate hierarchy. Next to decision-making itself, such delegation is the most complex and least understood of all managerial techniques. No technique is more beguiling democratic, in theory, but in practice more autocratic, by necessity. Because of this basic conflict, delegation is one problem for managers which is likely to grow knottier as corporations become larger the next 25 years.¹⁰⁵

In order to present an adequate view of decentralization, E. F. L. Breck says that it is necessary to examine the process of planning, control, coordination, and motivation. Such an analysis implies that management is a task performed by some in command of the activities of other people. The specific character of the task is the responsibility for decision determining the activities of other people, accompanied by other processes of collation of relevant facts and assessment of their significance. If the enterprise is of any size this responsibility must be sub-divided, but the total process involved in the exercise of responsibility must remain integrated. Such division may take place in many ways, two of which are: (1) The whole of the process command can be sub-divided into smaller self-contained units, or (2) the process of command can be sub-divided in such a way that there is a concentration of specialist knowledge and experience in certain fields. The common tendency has been for the sub-division of management responsibility to take place by the latter means due to the complex character of industry. This sub-dividing of the management responsibility is the process of "delegation" which leads to the structure of "decentralization."¹⁰⁶

Delegation means conferring a specified authority by a higher authority. It involves a dual responsibility. The one to whom authority is delegated

¹⁰⁵Perrin Stryker, "The Subleties of Delegation", Fortune, LI, No. 3 (March 1955), p. 94.

¹⁰⁶Ibid., p. 10-12.

becomes responsible for getting the job done. This principle of delegation is the center of all processes in formal organization. One of the tragedies of human experience is the frequency with which men, always efficient in anything they can do personally, will finally fail under the weight of accumulated duties that they do not know and cannot learn how to delegate. Under such conditions, growth through delegation is prevented by the character of leadership. This problem is as old as human history and the subject of one of the most practical and human passages in Scripture, the advice Moses received from his father-in-law, Jethro:

Moses was staggering under the same problem that has killed many modern leaders. He was attempting to perform the impossible duty of judging and governing all the people. Jethro observed his methods and saw what was wrong.

The thing that thou doest is not good. Thou will surely wear away, both thou, and this people that is with thee; for this thing is too heavy for thee; thou art not able to perform it thyself alone. Jethro suggested the delegation of duties as a possible remedy. So, Moses hearkened to the voice of his father-in-law, and did all that he had said. And Moses chose able men out of all Israel, and made them heads over people, rulers of thousands, rulers of hundreds, rulers of fifties, and rulers of tens. And they judged the people at all seasons; the hard causes they brought unto Moses, but every small matter they judged themselves.¹⁰⁷

Almost any person, unless he recognizes the long term consequences, feels safer if he makes decisions himself instead of delegating them to a subordinate. The superior rationalizes this centralization on various grounds. He is more highly skilled or trained than the subordinate; if he makes the decision, he can be certain that it is decided the way he wanted it. What he fails to realize is that by concentrating the entire function of decision in himself, he is multiplying his work and making the subordinate superfluous.¹⁰⁸

¹⁰⁷Mooney, op. cit., pp. 17-20.

¹⁰⁸Simon, op. cit., p. 236.

Many people in positions of authority are slaves to detail and apparently lack the ability or desire to permit anything to be done except under their personal scrutiny. The results are bottlenecks at the executive's desk, lack of time to attend the details, and creation of subordinates who are mere shadows of their chief.¹⁰⁹

If the executive in a large and complex organization operates at the optimum level and speed, he will need to:

1. Delegate as much work and responsibility as possible to his subordinates, always of course, in terms of their capacities and the environment in which he works.
2. Actually prefer to operate at his own higher level, which may vary from time to time.
3. Delegate authority and responsibility as closely as possible to the point in the organization where problems arise and action occurs. At this same time he must appraise his subordinates in terms not only of performance and progress, but in terms of potential, so they, along with himself, can rise to a higher level of responsibility.¹¹⁰

David E. Truman says that the crux of the problem of delegation is to decide what questions shall be handled at the central office and to devise means of following the use of delegated authority so as to provide adequate uniformity without stifling initiative and flexibility on the periphery. To complicate the problem further there are conditions in public administration which make its difficulties in this respect greater than those under which other organizations

¹⁰⁹ John M. Pfiffner, "How to Delegate Authority", Papers on Organization and Management, ed. Catheryn Seckler-Hudson (Washington: The American University Press, 1946), pp. 114-117

¹¹⁰ Catheryn Seckler-Hudson, Organization and Management: Theory and Practice (Washington: The American University Press, 1955), p. 87.

must operate. The public servant must guide his every action by the law as it is declared by the legislature, the courts, and such officers as the Comptroller General of the United States. Under such circumstances it is not surprising that the department head or bureau chief who will be held accountable is reluctant to have his field subordinates in a position to invite censure of these guardians of the law. The necessity of accountability in the public service, then involves not only maintaining a consistent administrative policy but also being legally correct.¹¹¹ When delegation is tackled as a professional or leadership problem, the chief objective is to strengthen the organization. This is almost always the reason why a firm embarks on a program of delegating, or decentralization. When the motivation is to strengthen the organization, the executive is ready and willing to look around for unused talents among his workers, and help develop those talents in direction which will strengthen the firm.¹¹²

When are we delegating or when are we assigning? Delegating involves entrusting; if we don't entrust, we are assigning, not delegating. Two questions will show whether we are actually entrusting the detail to another person: (1) Am I letting him do it, or am I keeping strings attached, or criticizing him, or holding back authority which will hamper his freedom to decide and take suitable action? (2) Am I at ease about his ability to do it faithfully; or did I delegate too much too soon, or to a person I doubt may be able to do it properly? Two classic examples of delegating but not entrusting are Henry Ford and John D. Rockefeller.¹¹³

When is delegation true and not a sham? Only when responsibility is

¹¹¹Truman, op. cit., pp. 13-14.

¹¹²Donald A. Laird and Eleanor C. Laird, The Techniques of Delegating (New York: McGraw-Hill Book Co., 1957), p. 87.

¹¹³Ibid., p. 84.

shared with the subordinate; when authority is passed along to him to help get it done; when decision-making is shared with him, or left largely to him; and when he is given freedom for actions he thinks are needed to reach the objective. We can shoot from the hip when assigning, but decisions to delegate require proficiency in the art and careful planning.¹¹⁴

When can we hold a man responsible? The answer lies in a universal which is extremely simple and valuable to apply. We can hold the individual responsible provided: He knows what he is doing; he knows what he is supposed to do; and it is within his personal control to regulate what he is doing.¹¹⁵

Like all administrative bodies, management is self-perpetuating and must provide for its own succession. Tomorrow's management may well determine whether an enterprise will prosper and survive ten years from now. Even the best men cannot foresee the future and today's best decisions regarding the future are necessarily guesses. But today's management can at least make sure that there will be men available, to make tomorrow's decisions, who are fully qualified, trained, and tested in actual performance. The fatal weakness of dictatorship is that there is no legitimate successor to the dictator. A dictator's power rests on his own personal strength and the allegiance to him which cannot be transferred. A single recognized successor threatens to overthrow the dictatorship. No institution can depend upon a supply of geniuses for survival; it must be organized so men of not much better than ordinary ability can run it, at least in normal times. Consequently, there must be a constant effort to select the best available men for succession, train them, and test them.¹¹⁶

¹¹⁴Ibid., p. 103.

¹¹⁵J. M. Juran, "Universals in Management Planning and Controlling," The Management Review, XLIII, No. 11 (November 1954), p. 759.

¹¹⁶Peter F. Drucker, The New Society (New York: Harper and Brothers, 1950), pp. 210-212.

The program director of American Management Association's Management Course warns of fads and prevailing techniques as cure-alls for management problems. He remarks that how well the functions of management are carried out is obviously influenced by the personal qualification of the manager; his decision-making ability, creativity, knowledge, maturity or judgement and more. It is a well known truth that carrying out the basic functions is greatly complicated when the effort being directed requires the services of several people. Immediately, the manager's ability to carry out the basic functions is affected by his inter-personal skills: The selection of personnel, communication, motivation, and training and developing of personnel. These skills are interwoven with the execution of all of the management functions to such a degree that frequently no distinction is made between them and the functions of management.¹¹⁷

A program of decentralized management often brings the manpower problem out into the open and forces management to deal with it. One of the risks is the possible shortage of good executives due to the failure of some when confronted with new demands. Many apparently capable executives wilt under the cold penetrating light of autonomy. When given sole responsibility for a certain portion of a business they fall short of expectations. This exposure becomes a sorting device, and a more accurate and quicker means of separating self-sufficient potential managers than any that is available in an organization without managerial decentralization.¹¹⁸

Managerial decentralization presents challenges to every member of the organization, some of which include:

1. The development of men. This is met by four concepts: Self-

¹¹⁷William A. Holcombe, "Management's 'Miracle Drugs'; Programs or Panaceas?" The Management Review, XLVI, No. 3 (August 1957), p. 87.

¹¹⁸W. Cameron Caswell, "Taking Stock of Divisionalization", The Journal of Business, XXIX, No. 3 (July 1956), p. 169.

development, providing a managerial climate for growth, manpower planning for future executive requirements, and increased education by utilizing the organization's own facilities and the nation's educational institutions.

2. Leadership by persuasion rather than by command. This is inherent in the very idea of decentralization. It thrives on the drawing out of ideas, special knowledges, and efforts of others. Decentralization implies the freedom for an individual to act on the basis of his own knowledge of the particular conditions applying to the specific problem at hand.

3. The achievement of team-work, integration, and balance. This requires the formulation of clear objectives; and a minimum of policies which express common interests and purposes of the enterprise.¹¹⁹

Louis A. Allen cites a mid west concern, with several small plants engaged in food processing, in which the president decided that decentralization would improve plant performance. He had heard that decentralization develops managers and this would help overcome his shortage of management talent. But, the more authority the president delegated to his plant managers, the more overall operating efficiencies went down. The lesson learned by this organization was that the development of managers must precede decentralization, but it does not necessarily follow it.¹²⁰

The President of Johnson and Johnson expressed a philosophy in 1955 which may well be a key to their apparent success in maximum managerial decentralization:

A most essential prerequisite is that the right man be available to direct each unit--- Decentralization should be viewed cautiously-- well conceived plans and availability of the required managerial

¹¹⁹Ralph J. Cordiner, New Frontiers for Professional Managers (New York: McGraw-Hill Book Co., 1956), p. 71.

¹²⁰Allen, Dun's Review and Modern Industry, LXX, No. 6, p. 40.

talents are necessary to any hope of success.¹²¹

Control

Principles.--There are four principles which must permeate a system of control for it to be effective.¹²² They are as follows:

1. Principle of uniformity. The underlying principle of uniformity states that an equal relation between organization factors such as responsibility and authority should be practiced. All figures and reports used for control purposes must follow the correct channels and in terms common to the organization. All delegated authority and responsibility should be equal. No person should be held responsible for the results of work which he is not in a position to influence. The control facts and figures with which responsibility is recorded should cover only those activities for which the person has been granted authority.

2. Principle of comparison. This principle states that all figures and reports used for purposes of control should be in terms of standards of performance required. In this manner a comparison can be made to measure standard performance, pre-planned performance, and the actual degree of performance with one another. The overall efficiency of the organization and the specific factor may then be measured factually.

3. Principle of utility. The figures and reports of a control system must be built around time in order to be useful. Whether the time involved is a day, week, month, half year, or year depends on the type of report and the situation that prevails. The criteria is that the reports must be timely enough

¹²¹George F. Smith, "How Much Decentralization?" Dun's Review and Modern Industry, LXVI No. 1 (July 1955), pp. 42-45.

¹²²Urwick, op. cit., pp. 107-110.

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to enable a business to correct tendencies liable to reduce a planned profit.

4. The exception principle. Administration and management must not become absorbed in the details of the business. In order to gain a full view in a short time, they must delegate controlled powers to subordinates. These subordinates relate personally or condense and summarize comparative reports which point out "exceptions." This allows administration and management time for viewing the total situation with perspective and yet attend to any irregulars or exceptions.

Techniques of Control.--Inspection. The relative importance as means of control attached to direct inspection and remote control through reports and returns varies in the different departments largely, though not entirely, according to the measureability in quantitative terms of the work performed. Some organizations can rely on statistical evidence while others may require personal inspection and advice, more on an educational level to increase efficiency.

In general, technical work can usually be controlled by reports and returns with less emphasis on administrative inspection. Here it might be brought out that often such "technical" inspections can be run in conjunction with the requirements of other governmental organizations and thus avoid duplication.

It is believed that these inspections can accomplish much more if they are conducted with more emphasis on education and training rather than "snooping."

Remote control. The use of statistical reports can be converted into an effective control. Cost statistics and accounts are an effective control. Cost statistics and accounts are an effective instrument of local measurement. Office records provide useful measurement criteria but only when they have been carefully organized and are diligently prepared.

Often times reports reach headquarters in an unsatisfactory form, this situation can be alleviated by an inspector discussing his proposed report with

the local officer concerned, giving him the opportunity to remedy defects before the report is sent in, and, if necessary of stating his case in writing on the report itself.

It is an open question how far the hierarchial system may lead to the quashing of information by intermediate officials if this is detrimental to themselves. The danger is greatest where the line of command is most attenuated. A good system of statistical evidence in itself goes far to counteract such tendencies.

The relative importance of inspection and "remote control" varies according to the nature of the work of a department. "Remote control" is most easily applied in the departments whose work is measurable in quantitative terms.

Rules and regulations. A body of rules and regulations to apply locally is a pre-requisite to decentralization, but they should be so framed as not to hamper the discretion of the local officer where it is desirable that he should be allowed it. Managerial decentralization with minute and pernickety regulations is a contradiction in terms and there has been of recent years a constant effort made to reduce the number of and to simplify regulations, in recognition of this fact.

Uniformity of training and promotion is a further means employed to secure uniformity with diversity, which decentralization demands.

Rules and regulations are common to centralized and decentralized organizations, but should be reduced in the latter instance as far as possible. They are essential as an aid to the creation of uniform standards.

When Control is Needed.--When William B. Given, Jr., President of American Brake Shoe Company, was preparing to write his book, he asked a number of his people for examples of where bottom-up management has failed. They

replied that it never actually fails as long as those below the top are given an opportunity to make a correct decision. The overall responsibility for the company sometimes makes it necessary for top-management to exercise authority; with anything less there would be no management. These occasions arise principally under the following conditions: (1) When youth or inexperience require guidance; (2) when someone somewhere along the line below the top-management level is not in a position to see, or is incapable of visualizing, the overall company picture; (3) when there is a lack of action because of uncertainty, or misjudgement of the relative importance of the problem.¹²³

Under a system of managerial decentralization, central management has a twofold function. It is the boss of the corporation; and at the same time it is the servant of the division managers, helping them become more efficient and successful in their autonomy. In this role of welding several hundred aggressive, highly individual, and independent executives into one team it attempts to achieve solutions and unity (control) through: (1) The power of central management to set the goals for each division and the whole corporation; (2) through its power to define the limits of authority of the division managers, and appoint and remove them; (3) through its constant check on divisional problems and progress; (4) through relieving the division manager of all concern with problems that are not part of the process of production and selling; (5) finally, through offering him the best obtainable device and help through the service staffs of central management. The utilization of service staffs is an important cog in the smooth functioning of General Motors. Their first function is to advise the division manager when he feels he needs it. They act as liaison between the various divisions, as information centers on new and improved methods. They

¹²³ William B. Given, Jr., Bottom-Up Management (New York: Harper and Brothers, 1949), p. 59.

collect and disseminate information about new problems, and they make available the most recent development from outside the company. They also keep central management informed on all important developments within the company, therefore forming a necessary connecting link.¹²⁴

Newman indicates that some of the important advantages of centralized administration include: The use of less skilled personnel in subordinate positions; widespread application of unusual knowledge or judgement that may be possessed by top executives; and the regulation of quality, service, and risk. These are not necessarily limited to small enterprises where the chief executive can do most of the planning and keep in touch with all that goes on. This, as we have said before, places emphasis on the "tailor-made" concept of applying decentralization.

Perrin Stryker points to A. A. Stambaugh of SOHIO as an ardent disciple of delegation who put forth warnings which showed some complexities of decentralized decision-making and arrived at the major paradox of delegation: The more that top-management tries to decentralize decision-making, the more it must centralize its control of decisions.¹²⁵ Or as it was put by Stambaugh, "Delegation does not mean abdication." This abdication may be implied in many cases; but it hardly seems reasonable for intelligent management to expect to cause adherence to overall plans, and achieve common objectives without ardent control from the top.

In the process of planning and controlling the complex activities of such specialized departments and functions as finance, purchasing, marketing,

¹²⁴Peter F. Drucker, Concept of Corporation (New York: The John Day Co., 1946), p. 49.

¹²⁵Perrin Stryker "The Subleties of Delegation, "Fortune, LI, No. 3 (March 1955), p. 95.

engineering, personnel, accounting, etc., modern management techniques have become so complex that they have to be handled by specialists. When this need is recognized, general management retains the full responsibility for high policy decisions, for giving directives, for rewarding and penalizing; but the technical details involved in planning and control are entrusted to a specialized department which often falls under the controller's functions. There are four essential features of centralized planning and control in conjunction with decentralized authority and responsibility: (1) Management must functionalize planning and control, centralizing it in a separate function; (2) management must make a precise determination of the lines of authority and responsibility; (3) management must define clearly the methods by which the various division and department heads can participate in planning; (4) management must develop methods of control which are adopted to the need of coordinated action in a decentralized organization.¹²⁶

In an answer to a question on the loss of control and uniform practices by top-management, Claude V. Swank expresses the philosophy which accompanies decentralization at Johnson and Johnson:

Complete control is not turned over - managers have a definite written statement of their responsibilities - a clear indication that there is control over them. So is the written statement which specifies their authority and sets limits to it.

Instead of them feeling the control, what they feel is that they are being guided and helped. Problems brought before top-management are talked over and a decision is made. We reach the decision.¹²⁷

Controls by top-management may be either direct or indirect. Most direct controls are expressed in written company policies, procedure manuals, job

¹²⁶Raymond Villers, "Control and Freedom in a Decentralized Company", Harvard Business Review, XXXII, No. 2 (March-April 1954), p. 90.

¹²⁷Claude V. Swank, "Some Principles of Decentralized Operations", (New York: American Management Association, 1943), p. 10.

descriptions of authorities and responsibilities, spot checks, financial restrictions, and communications systems via telephone, teletype, etc., for carrying information up and decisions down. Then there are those controls which are not so obvious, including some techniques which are supposed to improve delegation and decision-making, such as staff specialists, and "assistants" which definitely restrict the freedom of decision-making in middle and lower management. Some controls are exerted formally through group management via the use of committees and conferences to discuss problems, make recommendations, and reach decisions for top-management approval. Some are applied subtly by expressions, gestures or inflections.¹²⁸

Control and Communications.--Growth is accompanied by problems of increasing job specialization in both line and staff work which trains technicians in methods and disciplines unfamiliar to most executives. A communication problem results which complicates the control problem. The modern management executive must not strive for mastery of all the techniques used by his specialists. No man can be criticized for not knowing what he has had no chance to learn, nor can he be master of all the skills and disciplines a modern corporation must use. However, he must assume the responsibility for coordinating the work of many specialists with divergent knowledges and interests. He must understand the powers and limitations of methods and disciplines so he can ask the right questions of the right people to get the information he really needs, to decide wisely, delegate skillfully, and control effectively. To do this he must have the ability to think in terms of facts and figures, remembering that his instruments are people, and people have human nature and human reactions that are far

¹²⁸ Stryker, op. cit., p. 95.

from rational. He must know when to believe whom, and how much. The problem of reconciling conflicting statements and different points of view is a communication problem owing to the failure of management to make its wants and needs known and understood clearly; a failure of the staff and operating specialists to feed back explicitly, what to them is implicit in what they say.¹²⁹

The executive, in his office, attempts to get pictures of the outside world by words and figures, as brought to him by machines and people. Knowing what to get and how to get it become primary operating necessities. The words and symbols, plus his experience and interpretation, give him the picture which serves as his basis of thought and action.¹³⁰

Ralph Cordiner says that an area of challenge for professional managers is the organization and communication of information for decision-making, so results can be anticipated, planned, achieved, and measured. The growth of the paper and communication industries illustrate the increasing need for more knowledge and information.¹³¹

He quotes Dr. Zay Jefferies, retired Vice-President of General Electric as saying:

Our progress depends to a considerable extent on seeing to it that the simplifying processes move forward in appropriate balance with the complicating processes. If this can be accomplished, then individuals with given ability can expect to go forward indefinitely without becoming casualties to their own complexities.¹³²

The two way flow of understanding is emphasized by Drucker who says that a fairly accurate description of General Motor's policy of decentralization is

¹²⁹ Al. N. Seares, "Centralized Control of Decentralized Operations", Advanced Management, XXII, No. 7 (October 1957), p. 11.

¹³⁰ Edmund P. Learned, David N. Ulrich, and Donald R. Booz, Executive Action (Andover, Mass.: The Andover Press, Ltd., 1951), p. 47.

¹³¹ Cordiner, op. cit., p. 94.

¹³² Ibid., pp. 95-96.

the division of powers and of functions, and unity of action; the definition of a federal union. Such a union cannot rest on blind obedience to orders. It must be based on an understanding of each other's problems, policies, and approaches, mutually between central management and divisional managers. Everyone must know what is expected of him, how his neighbor will act, and why.¹³³

The president of a highly integrated manufacturing company convinced his board of directors to approve a heavy capital budget so the company could undertake geographic decentralization with new plants and diversification. This took three years. General and administrative expenses crept upwards. Increased sales did not offset increased fixed expenses. Finally, the company was forced to sell two of the plants and return to centralized management. What happened? The company assumed that dispersion would automatically result in decentralized authority. Instead, physical separation had made communication and coordination more difficult and multiplied the president's burden.¹³⁴

Control: The Budget and Review Process.--In most companies, the way the budget is formulated, and the way it is used to aid the procedures of definition, decentralization, and integration, reflects the character of the corporation. At the Atlantic Refining Company the budget is a continuing effort on the part of operating executives rather than a control by one department on others. The budget reflects two facets of Atlantic's organizational planning: Delegation of authority down the line, and initiation of planning from the bottom up. On the sectional level, plans are screened by product-coordinating committees and sent up the line to operating managers. The operating department's resulting forecasts are screened by an operating managers' committee. After an overall budget

¹³³Drucker, op. cit., p. 59.

¹³⁴Allen, Dun's Review and Modern Industry, LXX, No. 6, p. 40.

In accordance with Section 26 of the Act, the Commission has been directed to conduct an inquiry into the activities of the Commission and to report thereon to the House of Representatives. The Commission has accordingly conducted an inquiry into the activities of the Commission and has now the honor to submit to the House of Representatives its report thereon.

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Very respectfully,
The Commission

Done at the City of Washington, this 10th day of June, 1904.

has been consolidated, it is reviewed by an operating executives committee presided over by the president. The workability of this process results from the company having executives on all levels who are informed about the major business aims of Atlantic. With these aims understood, it is possible to make the budget a creation basically of men who are closest to the operations and who are responsible for fulfilling the budget. Operations are checked from the bottom up through reporting and interpreting along the same channels traveled by the budget. Basic to this process are exact definitions of the authority delegated to each executive, and his clear understanding of the responsibilities.¹³⁵

Internal audit, the staff activity which watches and probes the operations of decentralized units is a common control device. Ideally, these staff representatives work closely with each manager, calling his attention to areas where he is slipping behind budget or at variance with policy, thus giving him an opportunity to take corrective action on his own initiative. This staff function is extremely important in decentralized management. The ideal staff assistant works closely with the manager as a collaborator and counselor, not as an interfering busy-body. The manager goes on making his own decisions.¹³⁶

There are at least four different functions that the review process can perform:

1. A diagnosis of the quality of decisions being made by subordinates. Are they being made correctly or incorrectly? Is the work being done well or poorly at lower levels?

2. Modification through influence on subsequent decisions: By training or retaining in faulty areas, issue of new policies to govern decisions, or

¹³⁵Maurer, op. cit., p. 250.

¹³⁶"Realizing the Full Potential of Decentralization", The Management Review, LXIV, No. 12 (December 1955), pp. 849-850.

increasing the supply of information.

3. Review may perform an appellate function; to prevent grave consequences from individual decisions. This permits the decisions to be weighed twice, and the appellate review requires less time than the original decision, conserving time of better trained personnel for the more difficult decisions.

4. Review is often essential to the effective exercise of authority. The anticipation of review assures conformity and respect of authority.¹³⁷

There is a very close relationship between the manner in which the review function is carried out, and the degree of managerial centralization or decentralization. Review is sometimes conceived as a means of detecting wrong decisions and correcting them. However, under ordinary circumstances, the function of correlating the decisional processes of the subordinate which lead to wrong decisions is more important than the function of correcting wrong decisions. As the resources of the subordinate for making correct decisions are strengthened, managerial decentralization becomes increasingly possible. Hence, the review can have three consequences: (1) If it is used to correct individual decisions, it leads to centralization and actual transfer of the decision making function; (2) if it is used to discover where the subordinate needs additional guidance, it leads to centralization through promulgation of more and more complete rules and regulations limiting the subordinate's discretion; (3) if it is used to discover where the subordinate's own resources need to be strengthened, it leads to managerial decentralization. All three elements can be, and usually are, combined in varying proportions.¹³⁸

Human Problems:--Some golden words of wisdom are expressed in Executive Action and may be well taken by all those who are involved in designing and

¹³⁷Simon, op. cit., p. 232.

¹³⁸Ibid., p. 235.

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measuring results from a control system: "The major human problem of a control system is giving it adequate meaning for the people who must work with it."¹³⁹

The success of a control system depends more on developing a common understanding than on clarifying technical details. Meaning is given to it by the behavior of the superiors, by the grapevine, and by statements of company policy. One of the most important sources of meaning is the behavior of the executives in their analysis of variations from standard.¹⁴⁰

Risk, Mistakes, and Failures.--Robert W. Merry, Professor of Business Administration at Harvard, says that the act of delegating authority to carry out a job is easy; control to assure that the delegation is used wisely is more difficult; and avoidance of the responsibility for doing the job is impossible. The continuance of responsibility is probably one of the major deterrents to the delegation of authority. What if the subordinate uses his authority unwisely and makes a major blunder? Are we fulfilling our responsibility to the organization if we do not make sure such a circumstance does not arise? Can we, in good conscience, let matters of importance out of our hands? How tight should control be? If it is too tight it will be so detailed to obviate real delegation; loose controls leave the way open for serious blunders. If one's objective is to get a specific job done, delegation and control should help its achievement. If, on the other hand, one's purpose is to train subordinates, errors of judgement and even blunders as a result of delegation might be expected. Lessons learned through bitter, embarrassing personal experience are usually well learned and retained. The problem is one of providing sufficient opportunity for mistakes to be made without allowing them to be so overwhelming that they cause serious

¹³⁹Edmund P. Learned, David N. Ulrich, and Donald R. Booz, Executive Action, (Andover, Mass: The Andover Press, 1951), p. 128.

¹⁴⁰Ibid., p. 235.

damage to some major portion of the business, or to the man's confidence in his ability to survive and develop through his own errors.¹⁴¹

One method of control may be simply the high expectations by the superior for performance of the persons to whom he has delegated the task. An attitude of confident expectation and its informal conveyance may well provide the best control over a subordinate's performance.¹⁴²

Decentralization of responsibility and authority demands that mistakes be expected and permitted. Action then must be taken to see that the same mistakes are not repeated. A certain amount of error is part of the price we pay for progress. The perfectionist is not a delegator of responsibility, nor is he a competitor to be reckoned with.¹⁴³

If management wishes to determine whether it can afford to risk a mistake by someone to whom it would like to delegate a major responsibility, it should determine the maximum cost of a mistake and compare it to the cost of surrounding the decision with safeguards against error. The results of such a comparison are often surprising, as an example: A chief executive made an analysis of the activities of his purchasing agent and discovered that the most costly mistake would involve approximately \$100,000. He then computed the costs of procedures, red tape, forms, indorsements, approvals, and the time of other executives required to insure against error. This totaled \$142,000 annually.¹⁴⁴

Members of an organization should be given proper training and have opportunities to develop their ability to handle responsibility. If they can judge wisely what assignments they can fulfill and what they cannot, failures to

¹⁴¹Bursk, op. cit., p. 203.

¹⁴²Ibid., p. 219.

¹⁴³Appley, Management in Action, p. 278.

¹⁴⁴Ibid., p. 279.

perform will be rare. Furthermore, they can be asked to give a warning as soon as they have a serious reason to doubt that they will be able to perform as expected. As a result, the damaging consequences of an eventual failure can be minimized. However, it is a fact that failure will occur from time to time. A policy of decentralization of authority, based on the concept that individuals will be entrusted with full responsibility for certain assignments, is acceptable only if the risk entailed by failure is not of excessive magnitude. Control must be exercised as often as necessary to prevent serious damage. This means that there is a limit to how far decentralization can go.¹⁴⁵

Proponents of "bottom-up" management say that it is a form of progressive decentralization which gives officers, superintendents, foremen, chief-clerks, people all along the line, a stimulated feeling of personal freedom; freedom to think and plan boldly; freedom to venture along new and untried paths; freedom to fight back if their ideas or plans are attacked by their superiors; freedom to take calculated risks; freedom to fail. Most important is the freedom to fail. The freedom to venture and take calculated risks means nothing if failure is always punishable. It doesn't matter what form the punishment takes; it can be a raised eyebrow or a sharp tone of voice, as well as dismissal or failure to promote. The man must be encouraged to take risks, be free to make a decision and initiate action in a given situation, knowing that failure will not seriously harm him in the eyes of his superiors. Progressive decentralization takes a certain percentage of mistakes for granted and finds, in review that they are less frequent and costly than results under a czarist type management.¹⁴⁶

¹⁴⁵Villiers, Harvard Business Review, XXXII, No. 2, p. 91.

¹⁴⁶Given, op. cit., pp. 3-6.

This concept of freedom is surely the extreme and probably necessary in highly competitive industries. However, one has to assume the availability of exceptionally qualified personnel in positions of responsibility before such freedom can be attained. Or perhaps such a philosophy is due to the limited ability on the part of top-management to actually manage the business. It seems reasonable that much counseling and guidance must accompany increased delegation to prevent serious failures.

Melvin T. Copeland implies it is rather rare to find a well-rounded candidate for executive lieutenancy who is qualified on all counts, therefore the choice often comes down to selection of the man who seems most likely to make up his deficiencies by learning on the job, with the aid of such coaching as may be available. He illustrates an example of failure by lack of needed counsel and guidance:

Several years ago the president of a large textile manufacturing company announced that his purpose was to organize the departments in the company so that each department head would run his department as though he were in business for himself, standing on the record of profit earned and falling on losses incurred. That policy did not work out successfully for it was basically unsound. For one thing, it militated against instead of encouraging teamwork between departments. It generated inter-departmental frictions. It encouraged the taking of unwise chances because a department head was actually venturing the corporation's capital and not his own. Particularly significant was the fact that under the administration's policy the chief executive failed to install effective controls over the department heads and failed to provide opportunities for counseling and guiding them. Under that policy the department heads were not executive lieutenants, and the chief executive, in effect, was confession his inability to serve as a leader.¹⁴⁷

Line-Staff Relationships.--Line-staff organization is by no means a simple problem to the average organization. If conducted properly it can be a great asset, if poorly set up it can be the devastation of the organization. Strong, well informed men must be placed on both sides of the picture but with

¹⁴⁷Melvin F. Copeland, The Executive at Work (Cambridge: Harvard University Press, 1951), pp. 49-50.

slightly greater emphasis on strength on the line side and information on the staff side.¹⁴⁸ Careful training and a good system will usually promote harmony between the staff and line personnel. A few lines from an account of the Forrest Service line-staff system may be quoted here as an illustration of the necessity of balance to make the system work.

"The various functional lines must be kept in balance and held within their proper fields. Each function is defined as closely as possible but borderline cases are continually coming up and shifting situations require constant watching.

The relationships between the line of authority and the functional lines is exceedingly important. Briefly stated, the relationship is this. General policies are issued down the line of authority and only down that line. Within the framework of established policies, a functional chief in Washington may issue instructions to the Regional Forester, as a rule they are automatically routed in the regional office to the appropriate functional chief. The Regional Forester instructs his functional chiefs as to see to it that the Regional Forester is consulted on all such matters."¹⁴⁹

Communications between various levels of staff personnel is a big problem but to choke off this communication is even worse. Another frequent error that is made is that of the inexperienced director being awayed by the professional staff man, for example emphasizing a legal technicality to an infinite degree. This can consume too much time and eventually the director will find himself oriented around that one item rather than his organization as a whole. When the professional specialist gets too much authority this creates a bad structural situation. For another example an accountant may over-emphasize the process rather than the end result. Most specialists will assume as much authority as is given them, probably in most cases not by design but due to the nature of their work and the strong desire for their job to be perfect.

Specialist assumption of line control has many practical disadvantages.

¹⁴⁸Earl W. Loveridge, Washington-Field Relationships in the Forest Service, 1942, p. 25.

¹⁴⁹Ibid., p. 25.

They impede good public relations, speed of action, and the tendency toward experimenting.

The proper balance of staff and line can easily become one of the advantages of decentralization including the advantage of specialization.

Much more could be said with regards to line-staff relationship, but for the purposes of this study it will suffice to merely emphasize its importance to the success of any organization, whether it is centralized or decentralized.

Finance.--Authority in financial policies is seldom delegated below the top echelons of a corporation. This seems to be the rule even where a general policy of decentralization exists. For example, when there are geographically scattered plants, the division controller is usually under the direct supervision of the corporate controller at headquarters. The reasons for centralized control of financial policies are summarized by Dale:

...because the fundamental objective of almost every company is financial, a single decision at the financial policy-making level can spell the difference between survival and failure. For this reason, and because top-management regularly uses various types of financial reports to check on the effectiveness of its operations, the finance function is accorded a high place within the company, and only rarely are any but the routine aspects of the function decentralized. In view of the high degree of centralization of the finance function, even in companies which are otherwise widely decentralized, the question arises as to how much leeway is afforded local managers in making capital expenditures. In many companies, capital expenditure schedules are laid down in central policy statements, specifying the sums which different members of the management hierarchy are permitted to spend without requesting special permission. The capital expenditures vary to some extent in different companies, but in general they are limited to relatively small amounts.

Budgeting, as might be expected, is almost always centrally controlled. The various divisions make up budgets at regular intervals, for review and approval by top management. Often the detailed items of expenditure will have to be approved individually once more by the top officials.

Decisions regarding the raising of capital and sources of funds, as well as the payment of dividends, are usually made by the Board of Directors or the Executive or Finance Committee.¹⁵⁰

¹⁵⁰Dale, op. cit., pp. 190-191.

Communications

Bureaucratic centralization depends upon "communications." By the same token decentralization is even more dependent upon its "communications", if this is possible. Without an adequate understanding of the basic fundamentals of "communications", an organization is damned, whether it is centralized or decentralized. Due to the vast distance between headquarters and field offices in a decentralized organization this problem is of paramount importance and must be continually improved for the organization to function properly.

The Impact of Management Science

There is not enough time to do justice in exploring the ramifications of the "new technology" on organization and managerial concepts. On the other hand, it is felt that the subject should at least be briefly touched on in order that its effect can be considered in developing a decentralization philosophy.

The phrase "information technology", coined by Leavitt and Whisler, includes techniques for rapidly processing large amounts of information, mathematical programming, and for simulation of high-order thinking.¹⁵¹ The probable impact of this technology on management in the future is a drastic effect on middle and top management. This new technology is moving into the management scene rapidly, with definite and far-reaching impact on managerial organization.

Information technology is composed of several related parts, including techniques for processing large amounts of information rapidly and it is epitomized by the high-speed computer. A second part centers around the application of statistical and mathematical methods to decision-making problems; it is

¹⁵¹Harold J. Leavitt and Thomas L. Whisler, "Management in the 1980's", Harvard Business Review, XXXVI, No. 6 (1958), p. 41.

represented by techniques like mathematical programing, and by methodologies like operations research. A third part is in the offing, it consists of the simulation of higher-order thinking through computer programs.

Information technology is likely to have its greatest impact on middle and top management. In many instances it will lead to opposite conclusions from those dictated by the currently popular philosophy of "participation" management. Broadly, the prognostications of Leavitt and Whisler are along the following lines:

1. Information technology should move the boundary between planning and performance upward. Just as planning was taken from the hourly worker and given to the industrial engineer, we now expect it to be taken from a number of middle managers and given to as yet largely nonexistent specialists: "operations researchers", perhaps, or "organization analysts." Jobs of today's middle-management level will become highly structured. Much more of the work will be programmed, i.e., covered by sets of operating rules governing the day-to-day decisions that are made.
2. Correlatively, we predict that large industrial organizations will recentralize, that top managers will take on an even larger proportion of the innovating, planning, and other "creative" functions than they have now.
3. A radical reorganization of middle-management levels should occur, with certain classes of middle-management jobs moving downward in status and compensation (because they will require less autonomy and skill), while other classes move upward into the top-management group.
4. We suggest, too, that the line separating the top from the middle of the organization will be drawn more clearly and impenetrably than ever, much like the line drawn in the last few decades between hourly workers and first-line supervisors.¹⁵²

These are powerful and potent words but Leavitt and Whisler build a strong case for their forecast. Information technology has diverse roots - with contributions from such disparate groups as sociologists and electrical engineers. Working independently, people from many disciplines have been worrying about problems that have turned out to be closely related and cross-fertilizing. Cases in point are the engineers development of servomechanisms and the related

¹⁵²Ibid., p. 778.

developments of general cybernetics and information theory.

Frederick Taylor's scientific management influenced the design of industrial organizations and after World War II the participative management philosophy seriously overtook - and even partially displaced scientific management. Notions about decentralization, morale and human relations modified and sometimes reversed earlier applications of scientific management.¹⁵³

The scientific and participative varieties both survived. One reason is that scientific management concentrated on the hourly worker, while participative management has generally aimed at one higher level, at middle managers, so they have not conflicted. But what will happen now? The new information technology has direct implications for middle management as well as top-management.¹⁵⁴

One important reason for expecting fast changes in current practices is that information technology will make centralization much easier. By permitting more information to be organized more simply and processed more rapidly it will, in effect, extend the thinking range of individuals at the top. It will allow the top level of management intelligently to categorize, digest, and act on a wider range of problems. Moreover, by quantifying more information it will extend top management's control over the decision process of subordinates.

If decentralization becomes easier to implement, managers will probably revert to it. Decentralization has, after all, been largely negatively motivated. Top managers have backed into it because they have been unable to keep up with size and technology. They could not design and maintain the huge and complex communication systems that their large, centralized organizations needed. Information technology should make recentralization possible. It may also obviate

¹⁵³Ibid., p. 779.

¹⁵⁴Ibid., p. 779.

other major reasons for decentralization. For example, speed and flexibility will be less dependent on subordinates because there will be fewer "experience" and "judgement" areas in which the junior men have more working knowledge. In addition, more efficient information - processing techniques can be expected to shorten radically the feedback loop that tests the accuracy of original observations and decisions.¹⁵⁵

Some of the psychological reasons for decentralization may remain as compelling as ever. For instance, decentralized organizations probably provide a good training ground for the top manager. They make better use of the whole man; they encourage more active cooperation. But though interest in these advantages should be very great indeed, it will be counterbalanced by interest in the possibilities of effective top-management control over the work done by the middle echelons.¹⁵⁶

Probably the most compelling reason of all for recentralizing is the pressure on top management to cope with increasingly complicated engineering, logistics, and marketing problems. The temporal distance between the discovery of new knowledge and its practical application has been shrinking rapidly, perhaps at a geometric rate. The pressure to reorganize in order to deal with the complicating, speeding world should become very great in the next decade. Improvisations and "adjustments" within present organization frameworks are likely to prove quite inadequate; radical rethinking of organizational ideas is to be expected.¹⁵⁷

As organizations have proliferated in size and specialization, the

¹⁵⁵ Ibid., p. 780.

¹⁵⁶ Ibid., p. 781.

¹⁵⁷ Ibid., p. 781.

The following are the names of the persons who have been
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problem of control and integration of supervisory and staff levels has become increasingly worrisome. The best answer until now has been participative management. But information technology promises better answers. It promises to eliminate the risk of less than adequate decisions arising from garbled communications, from misconceptions of goals, and from unsatisfactory measurement of partial contributions on the part of dozens of line and staff specialists.

Leavitt and Whisler see the organization chart of the future to look something like a football balanced upon the point of a church bell. Within the football (the top staff organization), problems of coordination, individual autonomy, group decision making and so on should arise more intensely than ever. "We expect they will be dealt with quite independently of the bell portion of the company, with distinctly different methods of remuneration, control, and communication."¹⁵⁸

In summarizing the forecast made by Leavitt and Whisler, they envision a drastic change in our current organization philosophy with less middle management. This includes a rapid return to centralization and utilization of advances in new technology. Other authors think differently, one being Simon. Simon doesn't see the impact of science on man as changing man's stature. The impact will be what man wants it to be. Man will not end up a cog in the computer structure and the organization of tomorrow will be much the same as it is today.¹⁵⁹

We cannot deny the fact that the use of "information technology" will be a major concern of persons confronted with organization decisions. The machine

¹⁵⁸Ibid., p. 787.

¹⁵⁹B.C. Lenke and James Don Edwards, Administrative Control and Executive Action (Columbus, Ohio, Charles E. Merrill Books, Inc., 1961), p. 125.

age is here to stay. Apparently competent professional opinion concludes that:

Thinking machines, in the popular sense of the word, are imminent... questions of the degree to which such capabilities will be introduced into the management process are largely economic ones.¹⁶⁰

Determining How Much Decentralization

E.F.L. Brech, Senior Consultant of Urwick, Orr and Partners, London, provides some very sound advice to proponents of managerial decentralization, when saying that decentralization is a sound principle, but it requires to be made specific in operation by the definition of the responsibilities delegated and the specification of any important limitations, should there be such. This reaches the core of the subject: What responsibilities should be delegated and what reserved? Any attempt to find a general answer to this question is like finding an answer to "how long is a piece of string?" Even with reliable divisions or functions a reliable answer is hard to determine. The delegation or decentralization of responsibility needs to be dealt with on a "tailor-made" basis.¹⁶¹

Careful consideration of how much managerial decentralization is healthy for a particular organization brings out some troublesome questions: (1) What types of decisions should be made the exception and reserved for top-management? (2) Just how far down the line should the authority to make decisions be delegated? (3) In a given situation, should limited decentralization be employed instead of full delegation of authority? The answers appear to be in the careful consideration of the following factors as they appear in particular operating

¹⁶⁰Fred M. Tonge, "The Use of Heuristic Programming in Management Science", Management Science, April, 1961, p. 235.

¹⁶¹Kruisinga, The Balance..., p. 17.

situations:

1. Who knows the facts that will determine the decision, or can get them more readily? Consider the importance of accuracy, time, channels, and cost of communication.
2. What is the capacity of men at different organization levels to make wise decisions? Consider the types of decisions -- daily operating or technical.
3. Is there a need for speedy decisions adapted to local conditions? Consider the pressure for contract negotiation, personnel employment, etc.
4. Is coordination with other activities particularly important? Consider unity of action or synchronized actions.
5. How significant is the decision? Consider the maximum effects of the decision -- costs, on basic policy.
6. How busy is the executive who contemplates making the delegation?
7. What is the significance, in the particular situation, of the initiative and improved morale that may be generated by decentralization.¹⁶²

These factors seem to be the very basic considerations and almost universally applicable to any problems of determining how much managerial decentralization is both desirable and necessary.

It is one thing to accept, in theory, the philosophy of managerial decentralization; it is another thing to apply such a philosophy in a large organization. It requires far more talent for management to realistically break up its responsibilities into component parts and assign them to representatives in such a way that they are clearly understood, both as to content and relationship to each other, and thereafter to maintain an awareness of all that is going

¹⁶²Newman, op. cit., pp. 211-214.

on, than to center all controls at the top. Delegation does not mean abdication. Following are some observations by the Chairman of the Board, Standard Oil Company of Ohio, which may be of help as points of consideration:

1. Reduce the layers of management to a minimum for the greatest intimacy of communication.
2. Substitute staff assistants for line responsibility wherever it is possible.
3. Assign every management problem for final decision as far down as circumstances and problem nature will permit.
4. Don't overstaff. Limit staff responsibility to coordination, to providing assistance to line executives, and follow up after the fact.
5. Establish a working accord between top executives and all who report to them for a community of spirit based on confidence and understanding which grows from honest men working closely together, over a long period, toward the same objective.
6. Good executives bring good men along with them by selecting, testing, and developing. In the interest of decentralization and general effectiveness, the manager who has the ability to train an organization to do the job is far more competent than the one who centralizes control in himself. The best managers use the second area to achieve the first.
7. The "assistant-to" is very important to project the personality of the manager beyond normal bounds.
8. Decentralization affords the line executive no excuse for setting up an iron curtain around his operation. It forces him to reach out for the utmost use of staff assistance, and seeing that his subordinates do likewise rather than go it alone.

9. The popularity of the "communication" is evidence of the general realization of a need for decentralization. Real decentralization is achieved when management becomes an integrated function, when everyone in the organization potentially contributes his ideas, directly or indirectly, and there is evidence of belonging throughout.

10. Only by the decentralization of responsibility can we develop the capacity to make decisions. People who are ruled by others quickly lose their capacity to rule themselves.

11. Decentralization thrives on leadership, not drivership.¹⁶³

"The larger the size of an organization, the more numerous the decisions to be made, the longer it takes to make them at the top where they accumulate, the harder it is to have them carried out effectively and expeditiously. Distance has a way of changing the basic intent through misunderstanding and misinterpretations on the way."¹⁶⁴

Louis A. Allen, Director of Organization and Planning for the Booz, Allen and Hamilton management consultant firm, remarks that there are almost as many prescriptions for managerial decentralization as there are companies decentralized. He supplies four principles for decentralization:

1. Decentralization must be balanced by appropriate centralization. A central intelligence must retain authority to guide, coordinate, and control the operating elements toward a common objective. Central authority must include planning, organization, motivation, coordination, and control for the enterprise as a whole.

¹⁶³A.A. Stanbouth, "Decentralization: The Key to the Future", Dun's Review and Modern Industry, LXII, No. 2 (September 1953), pp. 164-166.

¹⁶⁴Dale, op. cit., p. 110.

2. The degree of decentralization is limited by the availability of effective controls. Company management can be decentralized only to the extent that it can evaluate the activities of operating units, to determine how well they are doing and to take corrective action when necessary.

3. Appropriate organization structure aids decentralization. Functional organization makes it difficult; division organization makes it easy.

4. Decentralization demands capable managers. It is effective only if the people to whom decision-making is delegated are capable of making effective decisions. One company president is quoted as saying: "I can't afford to decentralize unless I have some confidence that my management will make the right decisions more than half the time."¹⁶⁵

These principles, like Newman's "factors" mentioned previously, are very basic to the concept of managerial decentralization, and from each of them stems many complicating problems.

¹⁶⁵ Allen, Dun's Review and Modern Industry, LXX, No. 6, pp. 69-70.

CHAPTER VI

A SURVEY OF LARGE GOVERNMENTAL AND INDUSTRIAL APPLICATIONS OF DECENTRALIZATION

Both industry and government provide numerous examples of successful decentralization policies. In practice, the degree of centralization and decentralization varies widely from company to company and agency to agency, and often neither size nor geographical distances are important factors. In many cases, the type of organization seems to depend mainly upon the convictions of management.

A brief survey of a few large industrial and governmental applications of decentralization is believed appropriate, in order that the pros and cons of decentralization can better be understood from a practical aspect.

Large Industrial Applications of Decentralization

duPont.--Decentralization came early to duPont. Donaldson Brown, over 35 years ago, initiated managerial decentralization as a tool to assure that each department head contributed to the company's general health. A satisfactory return on investment was set at 10% for the divisions. Authority was so placed to enable the making of day-to-day decisions by those responsible for performance. There was clear definition of the precise operational authority of each division and department head, and executives who were not members of top-management or heads of departments or divisions. These definitions were spelled out in words and figures and were used as a basis for future planning of capital needs, expenditures, cash, future balance sheets, and income accounts. Brown supplemented this with a performance bonus and complemented it by turning the top command into a board of review to check performance, and turning other executives into

counselors. At duPont, division managers are fully responsible for carrying out an efficient and profit producing operation.¹⁶⁶ There is little doubt that they have full authority to carry out their responsibilities; however, it would be deceiving to believe that there is an absence of strong influence from Wilmington. A division manager who does not produce his share of company profits is probably aware that someone who can do so will take his place.

Standard Oil Company of New Jersey.--An excellent example of decentralization is found in the Standard Oil Co. of New Jersey, which does half its business abroad, producing crude oil in eleven countries, operating refineries in thirteen, marketing its products in 115 different nations and dependencies, and doing 17% of the total oil business of the world.¹⁶⁷ In all its relations with its affiliates (in Latin America, Europe, the Far and Middle East), the Jersey company stresses decentralized management, believing that a system of independent, self reliant companies gives maximum encouragement to growth and the development of leadership.¹⁶⁸ Each separate operating company has its own officers and board of directors, who are responsible to their stockholders. This affords the fullest opportunity for the expression of individual judgement and authority by the men who are most familiar with local problems.

General Motors.--Ernest Dale planned, executed, and wrote a research study for the American Management Association over a period of two years. General Motors was studied as one of the companies with outstanding experience in decentralization, which has been its policy since 1921. The collection of independent companies brought together under W. C. Durant in 1916, has grown and changed into

¹⁶⁶Maurer, op. cit., p. 228

¹⁶⁷Lepawsky, op. cit., p. 373.

¹⁶⁸Ibid., p. 376.

one of the most fabulous industrial giants of our time. The early organization had little central control and varied independent action for some plant managers. Though they had a high degree of authority, they lacked coordination and unity. There was a considerable inventory loss in 1920-1921. This resulted in a change of leadership that altered the entire destiny of the corporation.¹⁶⁹

In 1921, Donaldson Brown shifted his effort from DuPont to General Motors where, with Albert Bradley, he adapted the duPont system to the motor car business. The budget became the goal and chief planning instrument at General Motors. Executives' achievement was measured through precise cost accounting. Future estimates were made of production schedules, costs, inventories, and manufacturing processes. Profit goals were calculated in terms of sales, in addition to return on investment. Managers were then turned loose; rewarded for good performance with bonuses; transferred, reprimanded, or discharged if they consistently failed.¹⁷⁰

The new management under Donaldson Brown, Pierre S. duPont, John Pratt, Alfred P. Sloan, Jr., Charles E. Wilson, and others, began formulating basic policies and goals for all General Motors' holdings. The basic feature of the new policy was decentralization in the "federal principle" of Peter Drucker -- complete autonomies within the framework of uniform policy. The development of central engineering staffs led to more central formulation of broad policy, just as the development of labor unions led to the central determination of working conditions. Other technical and political developments led to a greater degree of centralization in determining hours, wages, and working conditions. However, the concept of decentralization still persists to give a division general manager

¹⁶⁹Dale, op. cit., pp. 98-99.

¹⁷⁰Maurer, op. cit., p. 229.

wide latitude for decisions, not subject to daily direction from the central organization, provided he continues to produce the desired results.¹⁷¹

Although decentralization is basic organization policy at General Motors, it is always tied to "centralized control" to coordinate with the needs of the business and with the requirements of policy. This centralized control is provided for in a number of ways:

1. Centralized programming. Top management establishes overall goals for production to coordinate sales, inventories, purchase commitments, and return on investment. Long range goals are planned centrally, with the divisions, to eliminate uncertainty.

2. Authority limitations. These are imposed on division managers with regard to such basic decisions as: Capital expenditures, product price ranges, salary increases and ranges above a certain level, bonuses, and union contracts.

3. Provision of services. This is done through general staffs at headquarters regarding new methods, techniques, future policies, and uniform practices, all on an advisory basis through personal contacts, meetings, bulletins, and periodic corporation-wide conferences. Division managers can decide whether or not they wish to take such advice.

4. Accounting control. Central accounting insures that managers will have adequate cost measurement and comparisons, measurement of return on investment, and the market standing through studies of divisions' sales as a percent of market.¹⁷²

General Motors could not operate as a holding company under loose financial control. A central management not only has to know the minor details of division management, but top officials must exercise the power, prestige, and

¹⁷¹Dale, op. cit., pp. 98-99.

¹⁷²Ibid., pp. 105-106.

influence of real bosses. Its administrative and organizational problems of diversification, with over 200 finished products, and its autonomy, with over 500 men of ability, experience, and ambition needed in major executive jobs to turn out all of the different finished products, could not be managed and organized from the top. Central management must give effective, unifying leadership and be confined to regulation and advice; division management must be autonomous and directed.¹⁷³

Drucker asked several General Motors executives, well below the top echelon, what the aims and achievements of their company's program of managerial decentralization have been. He summarizes these as:

1. The speed with which a decision can be made; the lack of confusion as to who makes it; and the knowledge of policies on which the decision is based, by everyone concerned.
2. The absence of any conflicts between the interests of the divisions and those of General Motors.
3. The sense of fairness in dealings among executives; the certainty that a good job will be appreciated; the confidence and feeling of security that comes when personality issues, intrigues, and factionalism are kept under control.
4. The democracy of management and its informality. Nobody throws his weight around, yet there is never any doubt where the real authority lies. Everyone is free to criticize, to talk, and to suggest, yet once the decision is taken, nobody tries to sabotage it.
5. The absence of a gap in the executive group between the "privileged few" and the "great many."
6. There is a very large management group providing a constant supply

¹⁷³Drucker, op. cit., pp. 45-46.

of good and experienced leaders, able to take top responsibility.

7. Decentralization means that weak divisions managers cannot ride for any length of time on the coat tails of successful divisions, or trade on their past reputation.

8. Decentralization means the absence of "edict management" where nobody quite knows why he does what he is ordered to do. Its place is taken by discussion and by policies which are public, and arrived at as a result of the experiences concerned.

Drucker concludes that it was obvious from the talks that the executives of General Motors not only consider decentralization to be the correct concept for the organization of a big business but feel that, at least on top-management level, this concept has been realized and its aims achieved.¹⁷⁴

General Electric.--The tremendous growth of General Electric from \$233 million sales in 1935, to \$1,377 million in 1947, was accompanied by a change from the central direction of General Swope, who retired in 1939, to a completely new philosophy under Charles E. Wilson and Ralph Cordiner. Wilson's assault on General Electric's problems began in 1944, and was carried on by Cordiner when he became president in 1950. The tremendous change in General Electric emerged in 1952, with 54 operating departments having as many separate responsible operators. Each department manager, who actually watches the plants and meets the customers, runs his own show. Cordiner talked extensively with every General Electric executive and operating group, and strongly emphasized executive development. He forced no sudden changes in the organization, but drew his wanted changes out of the old organization.¹⁷⁵

¹⁷⁴Ibid., pp. 47-49.

¹⁷⁵Maurer, op. cit., p. 235.

Cordiner preceded his changes by studying the new problems of organizing and managing a rapidly growing organization. It became apparent that General Electric was going to require increasingly better planning, flexibility, and faster and better informed decisions than possible under the highly centralized structure which had existed. The need was for putting the responsibility for decisions nearer to the scene of the problem where complete understanding and prompt action are possible. There was also a need for developing capable leaders for the future, more cooperative relationships, and a need to make the work of a manager in all echelons more manageable so it could be carried out by people of normally available energy and intelligence. No one was to be indispensable.¹⁷⁶

The president of General Electric has been issued a position guide, by the Board of Directors, stating in detail his responsibilities, authorities, and accountability. This is carried on down through the organization to the extent that each employee takes on responsibility for some part of the overall company work. Along with this responsibility, each position carries full accountability for measured result, and the necessary authority except those authorities specifically withheld. When such responsibility, along with commensurate authority and accountability, has been delegated according to a carefully planned organization of work, each individual has a challenging and dignified position which will bring out his full resources and enthusiastic cooperation.¹⁷⁷

A significant feature of General Electric's organization structure is that it has no place for assistant, "assistants-to", or "administrative assistants." They believe that such titles or positions create confusion as to responsibility, authority, and accountability; and tend to retard the growth of men in the

¹⁷⁶Cordiner, op. cit., pp. 45-47.

¹⁷⁷Ibid., pp. 43-50.

company. If the position is too big for one person and appears to require assistants, then work should be divided up and reorganized into as many positions as required to do it efficiently. Each position should stand on its own, with a specifically defined area of responsibility, accountability, and authority. They have no place for committees as decision-making bodies because a committee moves at the speed of its least informed member and is too often used as a way of sharing responsibility.¹⁷⁸

General Electric's interest in developing managers is indicated by their purchase of the Hoff Institute of Management at Crotonville, New York, and enlarging it into the General Electric Management Research and Development Institute. Here, managers are engaged in three areas of study: (1) The business they are in, (2) the technical areas in which they operate, (3) managing -- getting things done through people.¹⁷⁹

In his book, Ralph Cordiner gives his readers the ten principles which express General Electric's philosophy of managerial decentralization:

1. Decentralization places authority to make decisions at points as near as possible to where action takes place.
2. Decentralization is likely to get best results by getting the greatest knowledge and timely understanding into play on the greatest number of decisions.
3. Decentralization will work if real authority is delegated; and not if details have to be reported, or worse yet, if they have to be checked first.
4. Decentralization requires confidence that the associates in decentralized positions will have the capacity to make sound decisions in the

¹⁷⁸Ibid., p. 70.

¹⁷⁹Appley, op. cit., pp. 150-151.

majority of cases. Such confidence starts at the executive level in the art of full delegation.

5. Decentralization requires understanding that the role of staff or services is the rendering of advice and assistance to line operators through a relatively few experienced people so that those making decisions can do so by themselves, and make them correctly.

6. Decentralization requires a realization that the natural aggregate of many individually sound decisions is better for all than centrally planned and controlled decisions.

7. Decentralization rests on the need to have general business objectives, organization structure, relationships, policies, and measurements known, understood, and followed. But definition of policies does not necessarily mean uniformity of methods of executing them.

8. Decentralization can be achieved only when higher executives realize that authority, genuinely delegated to lower echelons, cannot, in fact, also be retained by them. Many executives believe in decentralization down to themselves and no further. They are continually reviewing detailed work and decisions, and "second-guessing" their associates; they are keeping their organization in confusion and preventing the growth of self-reliant men.

9. Decentralization will work only if responsibility commensurate with decision-making authority is truly accepted and exercised at all levels.

10. Decentralization requires personnel policies based on measured performance, enforced standards, rewards for good performance, and removal for incapacity or poor performance.¹⁸⁰

¹⁸⁰Cordiner, op. cit., p. 50.

Continental Can Company.--Carl Cotter Conway, Chief executive officer of Continental Can from 1926 to 1950, expanded the company since World War II by buying up companies right and left; with a piling up of a tremendous amount of executive responsibility and detail in the central offices at New York. He realized, in 1949, that Continental Can must decentralize or burst at the seams. But although the company was loaded with executive talents in engineering, manufacturing, and sales, no executive had been trained or tested in the broad art of decentralized administration. The orchestra needed a conductor and went outside to get General Lucius Clay. Conway placed General Clay in his own office to make possible an essential condition of decentralization, a condition that may sound paradoxical: Control over decentralized operations must be centralized in one man. General Clay immediately loosened the knot at the New York headquarters where operating control was concentrated. One division officer remarked that General Clay, without really letting loose of established policy, has everybody thinking he is his own boss.¹⁸¹

General Clay selected one man to head up both sales and manufacturing for each product line and gave him a maximum of authority. Each product division has its own staff for engineering, research, manufacturing, etc.: and each division vice-president builds his own operating plan; he is responsible for profit, budgeting, programming, and efficient plant operation. General Clay keeps central control over salaries exceeding \$700 a month, and capital expenditures in excess of \$25,000. His firm concept is that "the staff is the "servant of the line."¹⁸²

¹⁸¹Gordon Van Ark, "Should You Replan and Reorganize Now?" Advanced Management, XX, No. 9 (September, 1955), p. 29.

¹⁸²Robert Sheehan, "Continental Can's Pug Push," Fortune, LI, No. 4 (April, 1955), pp. 119-124.

Ford Motor Company.--A very limited type of managerial decentralization was characteristic of Ford for many years which gave the assembly and sales branches only limited discretion in operations. Basic policies, production methods, sales procedures, budgetary limits on expenditures, major capital additions, etc., were all decided by top officials and staff assistants at Detroit. The branch manager applied this basic plan to his sales district or assembly plant. Although a great amount of detailed planning was necessary, they operated within an established pattern.¹⁸³

At the end of World War II, Ford was still a model-T organization with responsibility and authority tightly confined and dangerously over-centralized. No group could be sure of what was expected of it. The company was losing nearly \$9,000,000 a month and was \$52 million in the red for 1946.¹⁸⁴

The big changes began when Henry Ford II became president in 1945. What developed was a vigorous housecleaning. The basic addition to Ford's management, and author of their reorganization program, was Ernest R. Beech, former General Motors Vice-President and President of Bendix Aviation, who applied General Motors' management structure to Ford. The whole immense operation was split into a multitude of specific assignments ranging from 14 large divisions, through individual plants, to segments within plants. Division managers now have all the authority the company can give them. Performance bonuses for executives are combined with meticulous cost accounting and detailed financial review. Top management forms a court of inquiry into the performance of each member by regular review of figures and graphs, telling how they are managing their responsibilities.¹⁸⁵

¹⁸³Newman, op. cit., p. 205.

¹⁸⁴Van Ark, Advanced Management, XX, No. 9, p. 28.

¹⁸⁵Maurer, op. cit., p. 239.

Ford developed in 1946 a cooperative program with Wayne University, to build its supply of potential top executives out of middle management; those junior executives within the ages of 25 to 35 years. When their new engine plant opened in Cleveland, in 1950, the plant manager and seven of his key line and staff men were graduates of this program.¹⁸⁶

Johnson and Johnson.--General Johnson remarked, when he was Chairman of the Board in 1948, that he liked small plants because they are adequately simple and easy to understand; managed by one executive and a small staff who can and usually do know their business. Facts are available, action is fast, and decisions are made on the spot. There seldom are conferences, meetings, and confusion from overlapping authority. There is no place to pass the buck -- no overlapping of departments, no joint responsibility, and no attempt to fit policies into a general pattern by a remote group of well meaning executives having no direct contact with the processes of production.¹⁸⁷

The company has been building and growing in New Jersey. It is gaining the economies of production under one roof by taking advantage of centralized facilities in new plant construction while maintaining product autonomy and their decentralized management philosophy. It is "trying to eat the cake of centralized utilities and services while keeping the cookies of divisional decentralization."¹⁸⁸

Sylvania Electric Products.--Genville Holden, Vice-President of Sylvania

¹⁸⁶ Archie A. Pearson, "The Ford Program of Supervisory Development," Organization Planning and Management Development; Personnel Series, No. 141 (New York: American Management Association, 1951), pp. 35-45.

¹⁸⁷ National Industrial Conference Board, Decentralization in Industry; Studies in Business Policy, No. 30 (New York: National Industrial Conference Board, 1948), p. 35.

¹⁸⁸ "Keeping Autonomy the Centralized Way", Business Week, June 22, 1956, pp. 94-96.

in 1947, gave an address that year to the Conference Board Round Table and stated two important reasons why he thought decentralization pays: "We get better individual plant leadership, and we get higher labor efficiency. It's as simple as that." He indicated that the other advantages offered by decentralization include the opportunity for training men for top management jobs. With each plant there is one big job. The managers of these plants would have nowhere near the responsibility in a centralized plant than they have in a decentralized plant operation. Managerial decentralization permits top-management to concentrate on company-wide policy without becoming involved in operating details. Although the coordination of scattered plants is difficult and requires certain controls to be set up, it is extremely important for these controls to be flexible enough to permit the local manager to retain his sense of independence.¹⁸⁹

Don G. Mitchell, in a speech at the Command Management School, Fort Belvoir, made these remarks:

When you operate under a policy of decentralized management, you have in effect a series of separate companies operating within the broad framework of broad corporate policy. In other words, you hold the divisions responsible for making a reasonable profit in a certain line of business, and you hold them responsible for keeping abreast of the competition. But you don't tell them what to do; you give them the ground rules, the company-wide policies, and that's all.

Decentralization has proved to be an increasingly important factor of modern corporate life. Quite frankly, Sylvania could never have grown from a company doing a business of \$15 million annually just before the war to \$300 million today without decentralization. Nor could many other companies.¹⁹⁰

Carrier Corporation.--In November, 1953, Carrier shifted from a horizontal (functional) type organization to a vertical (divisional) set up to concentrate

¹⁸⁹ N.I.C.B., Decentralization in Industry..., p. 27.

¹⁹⁰ Don G. Mitchell, "Assuring a Dynamic Organization," Paper read before the Command Management School, Fort Belvoir, Virginia, October 6, 1959.

management on product lines; to enable them to specialize on specific markets; and open up the top of the organization with positions which will provide more opportunities for training in general management. Executive Vice-President William Bynum informed a N.I.C.B. meeting that the major benefits from this were: (1) That inventories are brought under better control with responsibility concentrated in smaller groups; (2) the time required to change production, models, etc., was drastically reduced; (3) several places in the organization have opened up where men are receiving general management training, creating greater depth to the organization; (4) top-management has more time for creative, long-term planning.¹⁹¹

Conclusions of the National Industrial Conference Board Studies

The 1948 Conference Board Study was a survey of trends in industrial decentralization based on direct replies from 148 large manufacturing companies with 1447 plants. This study indicated that an analysis of individual company policies with respect to decentralization showed a variety of underlying considerations affecting top-managements' decisions to spread out geographically; from availability of qualified labor to the proximity to important markets. Some companies lean heavily toward considering the human relations factor more than others, and it appears as a common denominator in all case studies of the N.I.C.B. There were many cases of managerial decentralization which were not accompanied by physical spreading out. They remark that the variable factors affecting success or failure of a company's operations are difficult to measure in dollars and cents value of decentralization; it is difficult to prove that decentralization is cheaper when operating in several small plants rather than in an

¹⁹¹Van Ark, Advanced Management, XX, No. 9, p. 30.

integrated large factory. The study gave ten reasons for decentralization, as a result of the survey, listed in order of importance:

1. Proximity to important new markets.
2. Permits tapping new reservoirs of labor.
3. Better living conditions, more space and less travel in small city or town locations.
4. Small decentralized plants are more efficient.
5. Desire to avoid dominating the economic life of any community.
6. Public relations value of being a local employer in important market area.
7. Permits the segregation of unlike operations.
8. Enables large companies to expand and retain features of a small company.
9. Decentralized plants serve as training centers for future executives.
10. Human relations are likely to be better in small decentralized plants.¹⁹²

Forty percent of the companies surveyed in this study did not favor decentralization because: Spreading out multiplies the problems of top-management control; distance handicaps quick communications; there is a scarcity of executive talent and reluctance to move from metropolitan areas; and the basic objection of a highly integrated plant being more efficient for their particular industries.¹⁹³

The 1952 Conference Board study was concerned primarily with trends in industrial location but listed several advantages and disadvantages of decentralization, in the order of number of times reported, by the survey of 138

¹⁹²N.I.C.B., Decentralization in Industry..., pp. 4-9.

¹⁹³Ibid., p. 10.

companies with 1446 plants:

1. Efficiency of small-plant management.
2. Improved customer service and lower transportation costs through proximity to markets.
3. Improved labor relations and supply.
4. Lowered unit costs and overhead.
5. Provision of a variety of raw material sources.
6. Risk-spreading in the event of catastrophe, strikes, and other difficulties.
7. Training ground for future executives.
8. Intracompany competition.
9. Improved company relations.

Companies favored centralized operations because of these advantages:

Improved manufacturing costs and efficiency, reduced overhead, improved management through closer control and attracting more competent personnel, permits the combined shipment of several products, favorable labor situation, less capital required, and improved quality control.¹⁹⁴

Governmental Applications of Decentralization

In surveying large governmental agencies it is extremely difficult to measure the degree of decentralization. The Hoover Commission reported that in general, government suffered from over centralization and would benefit by decentralizing. In searching for evidence revealing which organizations were decentralized and the advantages and disadvantages associated, it was found advantageous to interview some distinguished officers in governmental agencies

¹⁹⁴ National Industrial Conference Board, Trends in Industrial Location: Studies in Business Policy, No. 59 (New York: National Industrial Conference Board, 1952), pp. 26-28.

to seek out first-hand information.

The Defense Department.--The Defense Department, the largest enterprise in the world, is presently undergoing a recentralization under the reigns of Secretary McNamara. As quoted in the Wall Street Journal:

...Mr. McNamara has...put civilian policy-makers firmly in command of military men and centralized Defense Department control under his own office. Separate strands of activity have been pulled together with unprecedented speed, often producing new organization creatures. A new Defense Supply Agency now buys items commonly used..., a single Defense Intelligence Agency centralized previously separated Army, Navy and Air Force efforts. To boost limited war capacity, Mr. McNamara is merging the Strategic Army Corps' three-division "fire brigade" and Tactical Air Command fighter plane units into a single command.¹⁹⁵

Mr. McNamara's critics charge he overlooks the human element. Many decry the Secretary's penchant for centralizing Pentagon control. "Most critics worry especially that military professionals and civilian careerists may have lost the habit and skill of making decisions by the time this dynamo departs."¹⁹⁶

To complaints of over-centralized management, the Secretary says: "I don't stand opposed to or in favor of centralization. I take a pragmatic approach. When I see a way to do something better, I do it. I do believe that every decision should be made at the lowest possible organizational level."¹⁹⁷

It is obvious that Secretary McNamara believes in a degree of decentralization commensurate with the particular needs of the day -- he demands a policy with maximum flexibility.

Department of Commerce.--Oliver C. Short, Department of Commerce, stated in an interview:

If I should return at any future time to the field of central personnel control, I would strive, in the light of my present experience and

¹⁹⁵Louis Kraar, "Defense Dynamo", The Wall Street Journal Vol. CLIX, No. 35 (February 19, 1962), p. 1.

¹⁹⁶Ibid., p. 8.

¹⁹⁷Ibid., p. 8.

convictions to establish such a decentralized yet coordinated system of personnel administration, and would endeavor to set the pace, shape the structure, stimulate the performance, and coordinate the results of a complete, well-rounded and comprehensive program; but would not strive to be the sole operating agent.

Civil Service Commission.--Mr. John Fischer, editor and writer with extreme wartime service as a federal official:

The Civil Service Commission is so centralized that it violates the most fundamental rule of sound management. That rule is -- when you hold a man responsible for doing a job, you must give him the authority he needs to carry it out. Above all he must be free to hire his own staff, assign them to tasks they can do best, and replace them if they don't make good. The American personnel system has become too negative, formalized and centralized.

Mr. Tarbox, Chief of Branch Office, Civil Service, Los Angeles, California, in a personal interview, outlined the original Civil Service Commission as a highly centralized organization. Originally less than ten percent of its organization was outside of its Washington, D.C. headquarters; today less than ten percent are still in the Washington area. This decentralization was caused by the wars and the Commission's rapid growth. Mr. Tarbox readily admitted that the Commission is not a truly decentralized organization, but the trend is in that direction. Some of the major problems that are forcing this decentralization are the tough labor market, salary areas and interpretation of policy.

During a "depression labor market," Mr. Tarbox stated that decentralization would be bad, therefore, the organization of the Commission must be able to fluctuate with current demands. The importance of good managers at the field level was emphasized by Mr. Tarbox, as a requisite for decentralization.

Treasury Department.--Mr. William Parsons, Administrative Assistant Secretary, Treasury Department, also in a personal interview, stated that the Treasury Department is highly centralized by tradition, but there is a strong trend towards decentralization. This he believes is good for the organization

and has enabled it to carry out it's mission in a much more efficient and economical manner. The mass volume of work presently carried on by the Treasury Department and its divergent fields, have forced decentralization in such cases as the Internal Revenue Service. Without decentralization any large bureaucracy loses its control. Assuming the desired calibre of managers are available, an organization is able to increase its control through decentralization. Along with this goes more economical operations.

United States Forest Service.--Mr. Dave Waite, Fire Prevention Officer, Los Angeles Crest Forest, United States Forest Service, stated that the United States Forest Service is a highly decentralized organization and through this decentralized policy it is able to carry out its mission much more efficiently and economically.

Bureau of Reclamation.--Mr. Wade Taylor, District Director, United States Bureau of Reclamation felt that the Bureau of Reclamation is a relatively centralized agency, mainly due to its integrated policy matters. He explained that if the Bureau of Reclamation is further decentralized, the various districts would be unable to cope with many problems involving numerous districts and vast areas. Through its centralization it is able to handle these integrated problems from an overall standpoint.

Bureau of Mines.--While in Boulder City visiting Federal agencies, I found the Bureau of Mines to be another highly centralized agency while the National Park Service is a relatively decentralized agency. This proves that every organization, for reason of its methods and structure, cannot follow a fast rule as to centralization and decentralization. In my estimation both of these organizations mentioned are accomplishing their mission in an excellent manner, with the very nature of each organization dictating varying degrees of

centralization and decentralization.

Social Security Commission.--Mr. James Mason, Manager of the Social Security Commission, Los Angeles Office felt that the Social Security Commission was one of the most decentralized agencies in the United States. Again its trend towards decentralization is caused by rapid growth. Mr. Mason believes in a decentralized structure as the answer to big bureaucracies and their associated problems.

Bureau of Internal Revenue.--Mr. Frank Smith, Assistant Director of Bureau of Internal Revenue, Los Angeles District stated that the success of the decentralized policy of the Bureau of Internal Revenue is mainly due to the technical process of its work. Decentralization enables the Department of Interior to bring its services closer to the people and still have positive control.

Census Bureau.--Mr. Traverse, Assistant Director of the Census Bureau, Los Angeles District has an opinion on decentralization which differs greatly from that of Mr. Smith of the Bureau of Internal Revenue. Mr. Traverse stated that the Census Bureau is necessarily a highly centralized agency due to its technical work. Despite Mr. Traverse's opinion I believe that the Census Bureau is at least structurally decentralized, despite its highly centralized policy control. It would be difficult for this organization to delegate policy-making authority for budget reasons, while the Internal Revenue Bureau has a well defined job description and there is little or no deviation on policy matters.

Conclusions of the American Management Association Study

This study, directed by Ernest Dale, evaluated the extent to which major functions are found to be decentralized:

1. Production function. Usually the first to be delegated and the

degree of delegation increases as the scale of production broadens. Smaller companies delegate production in job-order work; larger companies divide into product divisions. Central coordination is maintained through production or operating budgets, controls over production results, or through a vice-president for manufacturing or committee management. This is often accompanied by the centralization of special services such as technical research, engineering, product development, etc.

2. Personnel function. Major decisions tend toward higher centralization in the areas of:

- a) Selection and placement for important executive jobs.
- b) Executive development and promotion.
- c) Salary changes, bonus, pension, and stock purchase plans.
- d) Wage rate changes.
- e) Contact administration involving grievance decisions which may be precedent making.

It is noted that even in highly decentralized operations, relatively minor personnel decisions may be carried high up in the organization; many division managers will go to the head office for minor grievance decisions rather than face possible reversal.

3. Finance function. Usually less decentralized than any other function, even where a general policy of decentralization exists. Except in very few cases, little leeway is allowed subordinate managers in making capital expenditures over relatively small specified amounts. Budgeting is almost always centrally controlled, reviewed, and approved by top-management.

4. Accounting and statistics. Preparation of accounting and statistical reports, and their auditing, usually is centralized so that standardized reporting will enable effective controls and comparison of results.

5. Marketing function. Much decentralization of marketing exists in name only. Although units are separated by physical distance, strict control is maintained by the head office. Without expressed permission from the head office, little or no variation is permitted in prices and discounts quoted or in merchandise specifications. Strict limits on the amount of credit granted, expenditures for travel and entertainment, calls to be made, sales quotas, may be prescribed in considerable detail and checked regularly by the home office.

6. Purchasing function. Basic materials used in manufacturing which constitute a major portion of total costs are centrally procured. Ford buys steel, glass, and tires centrally. Authority to buy is broadly delegated when the materials represent only a minor part of total costs and especially when they are small outlays for repair and maintenance. There is a tendency toward decentralized purchasing where plants are widely separated, when local purchases are important, when supplies are perishable, price declines are expected, hand-to-mouth buying becomes important, or when small quantities do not allow appreciable savings by central procurement. When purchasing tends toward decentralization, the use of a type of "buyer's guide," centrally prepared and maintained, provides strict conformity and control.

7. Traffic. Characterized by the central setting of basic policies, studies of transportation rates and negotiations with carriers. Also where a steady flow of work depends on an efficient and unified routing program.

8. Specialized functions. Functions such as legal, patent, insurance, real estate, and scientific and economic research are frequently centralized in one department because of their highly specialized personnel requirements and the fact that they most frequently serve management at the policy making level. The results of research are likely to be used to the best advantage if the

research director reports directly to top-management.¹⁹⁸

In Dale's conclusion, he remarks that there is hardly any type of decision, except those involving major financial questions, which has not been delegated by the chief executive in some company covered by the American Management Association study. A number of companies have gone very far in delegating decision-making down the management hierarchy, some with notable success. However, these observations do not mean that delegation of decision-making is as widely practiced as it is suggested. Despite all the talk, examination of actual activities discloses that chief executives continue to make most or all major decisions, either directly or through a formal framework of strict rules, checks, and balances, informal instructions, and through mental compulsion on the part of subordinates to act as the boss would act. Chief executives are making final decisions on matters which are relatively or absolutely unimportant.¹⁹⁹

What Really Exists

At this point one begins to wonder just how much managerial decentralization is being "talked" and how much is actually practiced. Where do you separate those who preach the philosophy and really practice it, from those others who talk decentralization of decision-making authority because it is a sound principle, but do not apply it? Then there are apparently many who imply the belief and application of the philosophy of decentralization because it is the popular thing for "progressive" management to do, and is believed to be the "hallmark of good organization."

An organization, by chart, often indicates a decentralized operation, but procedures of control published by the central office often leave little

¹⁹⁸Dale, op. cit., pp. 188-195.

¹⁹⁹Ibid., p. 118.

discretion or judgment to division managers. The informal invasion of decentralized operations by top-management suggestions plus intra-company transfers of personnel make a seemingly autonomous unit very dependent on central controls. Some almost humorous examples of this are illustrated in American Business.²⁰⁰

Perrin Stryker cites a study made by Princeton University of 35 companies which showed that since 1947, management has developed a "philosophical bias" toward decentralization, but "the tendency is... to talk decentralization while practicing centralization." Theoretically, decentralization weakens the company loyalty; but practically, top-management of large companies cannot permit the type of local autonomy implied by the theory of decentralization. America's corporations are not likely to become democratic business federations.

There is, to be sure, plenty of politics in the American Corporation, but the politics are not those of democracy, nor should they be. The principal business of management is to make money, and time and money should not be wasted trying to make decision-making democratic. But if they learn the subtleties of delegation, they may succeed in making it appear so.²⁰¹

It should be noted that Stryker's concepts on the purposes of management often run counter to those of many other writers on business management. The quote above illustrates how much he differs from many other writers cited previously.

At the international study-conference in Rotterdam, Ernest Dale pointed out that there is no statistical information available indicating the extent of centralization and its reverse, the decentralization of decision-making in United States' industry. Business literature usually carried accounts of corporate decentralization largely because of the popularity of such moves as being

²⁰⁰Robert C. Trundle, "Trends in Decentralization", American Business, XXV, No. 12 (December, 1955), pp. 14-15.

²⁰¹Stryker, Fortune, LI, No. 3, p. 164.

"progressive" and news-worthy. However, general reasoning will show that centralization is still quite widespread. The one-man control is probably found in more companies and affects more employees than "control by the few" or "control by the many."²⁰²

²⁰²Kruisinga, The Balance...., p. 29. For the content of Ernest Dale's presentation at the study-conference, repeated at Cincinnati in a paper before the Society for Advancement of Management, see: "Centralization vs. Decentralization", Advanced Management, XX, No. 6 (June, 1955), pp. 11-16.

CHAPTER VII

SUMMARY AND CONCLUSIONS

Summary

A rich historical background exists of the American experience of administration and organization. Basing the national government on a marvelously flexible constitution has permitted the steady growth of a democratic organization, which touches upon the facts of the every-day life of the individual without unduly hampering his personal freedom. This jealously guarded individual freedom has been defended steadfastly against the encroaching centralizing tendencies of a Federal Government gradually grown stronger. Thus while there seems to have been a steady pull in government towards centralization, an equally strong urge towards decentralization pulled in the opposite direction. This was mainly characterized by the struggle between "federalism" and "states' rights." In this connection, Pfiffner notes that before (and for some time after the Civil War) "the question of centralization versus decentralization was largely political in nature."²⁰³ However, this was largely a result of the nature of government activities which since have changed radically. In discussion this period, Pfiffner states:

"The federal administrative departments were not reaching their tentacles of supervision and control down into the administrative activities of states, counties, and cities, nor were state administrative agencies actively exercising power and influence over the units of local government. Such centralization as did exist in this latter era was political and legislative in nature, without benefit of state administration.

The twentieth century has witnessed a definite change in character in the field of state-federal and state-local relationships. Whereas they

²⁰³John M. Pfiffner, Public Administration (New York: The Ronald Press Co., 1946), p. 129.

were formerly political or legislative, the tendency in recent years is for them to become administrative in nature."²⁰⁴

This changing concept, combined with the expansion of Federal activities in recent decades, has led to searching studies of the principles of administration and organization which could fit the demands of the problem. Of particular importance is the search for the optimum degree of decentralization.

The growth in the number and complexity of activities of government has led to a tremendous increase in bureaucracy itself. Guided by laws, regulations and policy, the field service must execute programs of the government and must bring these more or less specialized programs into coordinated focus for each geographic area of the country. To counter centralization of policy determination and the apparent withdrawal of technical policy-determination from the arena of general popular discussion, an improved type of administrative organization is required. The most promising device for avoiding the consequences of this situation is managerial decentralization of functions to a field force which is capable of applying and adapting general policies to local, regional, or occupational needs and peculiarities.

Much can be learned from analyzing the industry's experience with various managerial techniques. The particularly revealing study directed by Helen Baker, associate director of Princeton's Industrial Relations Section, was previously discussed. This study of centralization and decentralization of industrial relations in thirty-five companies showed that top-management, since 1947, has developed a philosophical bias towards decentralization, but that the tendency is to talk decentralization while practicing centralization. Baker expresses the discrepancy between attitudes and practice as follows:

²⁰⁴Ibid., p. 130.

"A variety of reasons is involved in the discrepancy between philosophical preference and current practice. Decentralization is sometimes seen as a goal rather than as a description of present procedure. Even with the most sincere effort to implement philosophy, practice inevitably lags far behind. Differences in the definition of decentralization tend to confuse objectives. For example, the state of person-to-person relationships, rather than the extent to which authority for decision-making is delegated, may be taken as a measure of decentralization. The conflicting goals of decentralization and of uniformly sound industrial relations in all plants make it difficult for a company to effectuate even the most sincere belief in the value of more extensive delegation of responsibility for industrial relations decisions. And last, decentralization is to some extent a fad, to some extent accepted as a panacea for the problems that have increased with an increase in the size and complexity of industrial organizations."²⁰⁵

Because the terms are ambiguous, they were defined in chapter two.

Centralization and decentralization may refer to the geographic dispersal of activities; or the terms may be used in the sense of functional centralization, and respectively decentralization, in which case the terms refer primarily to the authority relationships existing between the various management levels of the organization and imply, as such, the process of delegating managerial powers and responsibilities from the top of the hierarchy to executives down the line (the nature of the management process). It can be said that all organizations of multiple levels of hierarchy are decentralized to some degree.

The arguments for and against decentralization were presented in detail in chapters three and four. Specific arguments for decentralization include: (1) Speed and efficiency in operations, (2) encouragement of internal coordination and responsibility, (3) opportunity for administrative experience and development of executive personnel, (4) more effective external coordination, (5) efficiency and economy of operations, (6) reduction of administrative details at the central office, and (7) improvement of public relations. These are

²⁰⁵Helen Baker and Robert R. France, Centralization and Decentralization in Industrial Relations (Princeton, New Jersey: Industrial Relations Section, Princeton University, 1954), pp. 195-196.

countered by the following arguments against decentralization: (1) Fear of the undue influence of local pressure groups (2) problems of coordination, (3) weakened lines of technical control, (4) lack of qualified personnel, (5) lack of uniform policy, (6) inadequate use of staff personnel, and (7) the maximum utilization of technological breakthroughs (information technology). Successful decentralization thus implies staff supervision in terms of direction, assistance, control, and check-up.

Decentralization can insure uniformity provided certain conditions are met: (1) Top-management, both departmental and field, must support and understand the program, (2) field installations must be adequately staffed by trained personnel, and (3) adequate control is administered. Decentralization is thus the logical outcome of the understanding of proven management principles and the ability to plan, organize and develop modern management methods. In view of the need for qualified personnel, careful selective policies and training programs must be worked out and constantly improved. However, the sort of field staffs which can be trusted politically, professionally, and administratively cannot be developed, in spite of such programs, unless a substantial degree of responsibility and authority is delegated to them. Experience shows that decentralization is conducive to the encouragement of experimentation and the development of initiative.

Decentralization to some degree is a physical necessity. Federal action programs can serve the national interest only if they are finally responsible to a national political determination; because this is so, national decentralization should take place through a unified if dispersed organization, around a central core of direct national authority.

A highly centralized organization cannot effectively embark on a maximum

decentralization policy at one time. It must be a gradual process, the speed of which is determined by many factors, some of which are: (1) The caliber of personnel available, (2) political considerations, (3) the willingness to delegate authority, (4) the effectiveness of controls and communication, and (5) the efficient use of systems such as EDF which demand centralization of certain functions. Decentralization can be established only after careful study of the nature and mission of the organization and consideration of many economy and efficiency factors. The three elements of bulk, area, and purpose are the basic criteria for determining the optimum degree of decentralization.

In that managerial decentralization is primarily a top-management problem and involves top decisions, the consensus of management literature can be divided into two parts; things that managerial decentralization do and things that central management must do:

1. Things that managerial decentralization do:

- a) demands a philosophy which is accepted by all management levels.
- b) requires a high degree of coordination from the top of the hierarchy to the bottom through clearly understood relationships.
- c) requires a definition of responsibilities, delegated authority, and any limitations that are to be applied.
- d) places decisions where action occurs, problems arise, and most accurate and timely information is available.
- e) relieves top executives from excessive details.
- f) demands capable managers.
- g) develops executives for management of the business as a whole.
- h) discourages "specialization" in managerial development.
- i) brings the problem of management succession fully into view.
- j) provides a testing ground for future top executives.
- k) furnishes yardsticks for measuring performance.
- l) requires early attention to early manager selection and training.
- m) emphasizes the need for delegating authority to plan.

2. Things that central management must do:

- a) tailor the degree of managerial decentralization to fit the needs for fast decisions, and the capacity of its executives.
- b) set overall goals and provide the ground rules.
- c) define responsibilities assigned, authorities delegated, and limitations applied.
- d) determine the lines of authority and responsibility.

- e) develop effective methods of control.
- f) give meaning to the control system for those who must work with it.
- g) allow subordinates to participate in planning.
- h) give authority for decision-making to the people who have first hand knowledge of the operations.
- i) delegate authority to points within the organization where problems arise and actions occurs.
- j) concentrate on the major problems of the business.
- k) provide subordinate units with the best advice and information available through staff services.
- l) minimize the grave consequences of poor decisions.
- m) expect mistakes and provide sufficient opportunities to make them.
- n) establish high expectations of performance and inspect only the important activities, not the incidentals.
- o) measure and evaluate performances.
- p) reward good performances and take firm action to resolve those consistently poor.
- q) educate the entire organization on the philosophy of managerial decentralization and practice what is intended.
- r) recognize that the application of the principles of managerial decentralization will not necessarily resolve problems of organization without first considering the human problems of management.

The attitude of management towards the merits of managerial decentralization has a direct effect on the success or failure of any venture into decentralization. Over the years an increasing number of companies have adopted decentralization of decision-making as a basic method of organization -- companies such as General Motors, General Electric, Sylvania Electric and American Brake Shoe Company. The philosophy of these financially successful companies has done much to convince other executives that decentralization may assist the economic position of their companies. Typical of this thinking is the statement of General Robert E. Wood, Chairman of the Board, Sears, Roebuck and Company:

We complain about government in business, we stress the advantages of free enterprise system, we complain about the totalitarian state, but in our industrial organization, in our striving for efficiency, we have created more or less of a totalitarian organization in industry -- particularly in large industry. The problem of retaining efficiency and discipline in these large organizations and yet allowing our people to express themselves, to exercise initiative and to have some voice in the affairs of the organization is the greatest problem for large industrial organizations to

solve.²⁰⁶

Even more so in government than industry, in a democracy it is essential that decisions be made at the level of operations so that the human element and individual needs be fully considered.

These are factors which seem to demand decentralization in government agencies; among them are: (1) the problem of popular control over the newer functions of government, (2) the integration of formerly autonomous units within the federal administrative structure, (3) the centralization of policy formations on matters of intimate personal concern to the individual citizen, (4) the conflict between administrative effectiveness and the theory of rigid federalism, (5) the adjustment of national policies to local physical and economic peculiarities, (6) the demands for efficiency and economy as well as improved services to the customer - the public. In addition, management is self-perpetuating and must provide for its own succession. Tomorrow's management may well determine the success or failure ten years from now.

Administrative decentralization is obstructed by numerous and imposing obstacles. Chief among these are: (1) the influence of tradition and the lack of conscious adaptation to the factors of a changing environment, (2) the requirements of central control, (3) the question of the influence upon decentralized subdivisions of localized pressure groups, (4) the difficulty of coordinating decentralized functions, (5) the cost of acquiring and keeping top-notch executives and (6) the resistance to the delegation of authority in fear of losing power and prestige.

In the words of Dhonau:

²⁰⁶Quoted in Boris Emmet and John E. Jueck, Catalogues and Counters - A History of Sears, Roebuck and Company (Chicago, Ill.: University of Chicago Press, 1950), p. 371.

A distinction must be made between the structure of the organization and the methods of administrative control employed, and the actual delegation of powers.

A purely hierarchical system, which cuts off Headquarters from all direct contact with the local organizations, would lead to that remoteness in high places and divorce between theory and practice which it is the very aim of decentralization to avoid. A similar danger lies in the decentralization of administrative and executive work on to regional authorities who are never taken into consultation by the policy-making authorities at Headquarters.²⁰⁷

Having established a sound case in favor of decentralization, it is necessary to consider the much more complex question of what is the optimum degree of managerial decentralization. There is no simple formulae to apply. A high degree of centralization may be most effective for one agency, whereas it may result in serious ineffectiveness in another. So Henri Fayol pointed out:

Centralization, like diversion of labor, is one of the laws of nature... Centralization is not a system of administration, which is good or bad in itself, and can be adopted or discarded at will; it is always present to some extent, so that the question of centralization or decentralization is simply one of degree -- The problem is to find out what is the best degree of centralization for a given understanding.²⁰⁸

Many variable factors determine the practical extent of how much decentralization of authority should be employed. Some of the more important factors which must be considered are: (1) Size, number, and location of plant and facilities, (2) nature of the agency's or company's business, (3) economic trends, (4) political trends, (5) the philosophy of management, (6) personality of the chief executive and his subordinates, (7) the type of management functions to be delegated.

The degree of managerial decentralization varies from complete central

²⁰⁷May L. Dhonau, Decentralization in Government Departments (London: Institute of Public Administration, Palace Chambers, Bridgestreet, Westminster, London, S.W.1., 1938), p. 168.

²⁰⁸Henri Fayol, Industrial and General Administration (New York: Pitman Publishing Corp., 1949), p. 27.

control to almost complete autonomy. Newman describes a "limited" decentralization as that which exists where the policies, programs, and major procedures are decided in top echelons; the applications of these to specific situations and the detailed day-to-day planning are delegated down the line to the first or second level of supervision. Under such a dictum the field offices apply the general rules and regulations to individual situations, but their own discretion is very limited. Proponents of limited decentralization claim the benefits of centralized administration, the widespread use of good ideas of top executives, and centralized regulation of operations, at least in those areas where it is believed important for purposes of consistency, efficiency and control. Limited decentralization does relieve the top executive of much detail, freeing his time for other matters; action on problems is quicker; and there is more possibility of adaption to local conditions than in a purely centralized administration.²⁰⁹

"Bottom-up" management represents the ultimate in decentralization. Not only authority but initiative is decentralized. Central staff assistance is used only insofar as the operating people believe it will help them. If they achieve better results following their own ideas, no one complains. The chief executive's principal duties become those of helping the operators do a better job, in contrast to the scheme where operators are expected to carry out the orders of the executive. It is certain that this concept requires extremely competent personnel. Plans originate at the bottom and ideas tend to flow upward. It becomes impossible for top executives to undertake detailed control. "Bottom-up" management is applicable to organizations capable of dividing into many small autonomous units, where the failure of one will not seriously affect

²⁰⁹Newman, Administrative Action, pp. 205-206.

the others or the whole.²¹⁰

The greatest effect of "bottom-up" management is upon the members; it stimulates employees to challenge, discover, create, decide, and initiate. It provides a dynamic force, enhances individual morale, and provides an excellent training ground for future executives. Operations are easily adapted to local conditions, inasmuch as both initiative and authority are thrust upon those most familiar with the actual operating situation. Administrative controls can be simplified and many eliminated; it relieves top executives of attention to considerable detail; and provides flexibility through prompt action.²¹¹

In chapter five, under the subtitle "How Much Decentralization," the factors for consideration in determining the degree of decentralization are presented. After carefully weighing these considerations it is apparent that the optimum degree of decentralization lies somewhere between Newman's "limited" decentralization and "bottom-up" management. These factors seem to be the very basic considerations and almost universally applicable to any problem of determining how much managerial decentralization is both desirable and necessary. It is one thing to accept, in theory, the philosophy of managerial decentralization; it is another thing to apply such a philosophy in a large organization. As has been said before, it requires far more talent for management realistically to break up its responsibilities into component parts and assign them to representatives in such a way that they are clearly understood, both as to content and relationship to each other, and thereafter to maintain an awareness of all that is going on, than to center all controls at the top.

Both industry and government are replete with examples of varying degrees

²¹⁰Ibid., pp. 208-209.

²¹¹Ibid., p. 210.

of successful and unsuccessful decentralization. It is evident that decentralization is a sound principle, but finding the answer to what and how much should be centralized is like finding the answer to "how long is a piece of string?"

Managerial decentralization needs to be dealt with on a "tailor-made" basis.

In performing the research necessary for this paper, a general consensus was found, both of the writers reviewed and of the persons interviewed, that the trend today is towards decentralization. After analyzing the impact of machines and the "information technology" there appeared some discrepancy in this opinion. When a large organization invests vast sums of money in EDP, for example, there is no question but what functional capabilities of such a system must be centralized to get maximum utilization of the system so that it can pay its way. Looking even further ahead, I can see the day when many every day decisions of field units will be made by machine, and the decisions will be more accurate than at present. As new techniques of rapid communications are made available, there is no question but what many field executives will be replaced by machines.

The one draw-back of such a situation is "keeping the finger on the pulse" at the grass-roots locations. Local political pressure cannot be ignored. This is so very important, especially for governmental agencies. Here lies the future for managerial decentralization. The technical disadvantages of decentralized operations, such as uniformity, control and the like, will be overcome by machine application, while the field manager will be the contact man for the agency. Central, specialized staffs will be more effective through the use of rapid communications.

Such an operation will call for a recentralization of technical functions and further decentralization of non-technical functions.

Conclusions

A central problem of public administration is the dispersion of power horizontally to avoid too great a concentration at the top. An over-concentration of power anywhere in the social fabric invites domination and dictatorship at the expense of democratic vitality. Certain forces at work today tend irresistibly toward the very result that is to be avoided. In the face of this situation, one of two courses is possible: either society must find ways of devolving the concentrations which have accumulated, or, if this is thought socially undesirable, administrative methods must be developed to combine the advantages of administrative centralization with those of institutional decentralization.

In administration, too great a centralization at headquarters leads to an overload of work at that point, loss of contact with local centers, and a failure to take local conditions and aspirations sufficiently into account when determining national policy. Moreover, concentration at the top has an equally disastrous effect on regional and local administration, for it results in inadequate authority, weakened initiative, too many detailed instructions, loss of spontaneity and flexibility, the frustration of officials, and, in the end in an aroused citizenry.

Managerial decentralization is both an attitude and a technique and has been largely negatively motivated. Top managers have backed into it because they have been unable to keep up with size and technology. What is desired for solving their problems is not "gadgeteering" techniques, or "principles" of organization but a viable, heuristic philosophy around which optimum efficiency can be realized through management, administration and organization.

The American drive for efficient, systematic, and scientific management is found in government as well as in business. In government, however, efficiency may be subordinate to such higher considerations as community welfare, economic stabilization, resource conservation or national defense. Efficiency is not all the public wants or needs. In one field, however, that of administrative organization, the public exercises a strong interest. Here the public wants to know where and how efficiency can be obtained. The generalization can be made safely that American experience in the science of organization and administration (in business as well as in government) indicates a ceaseless search for improved methods. The basic underlying motive therefore seems to be in a generally accepted idea that there is always a better way of doing something, and that it is always possible to improve upon currently used techniques. A decentralized program of administration is a logical development of this process.

In formulating a decentralization philosophy a prime consideration is that any program of decentralization must be adopted around the particular needs of each individual organization. E. F. L. Breck stressed the need to "tailor-make" a program for decentralization in his discussion of coordination, cooperation, and the personal factors of organization. He gave some very sound advice:

"The upshot of the argument I am advancing is this, that 'centralization' and 'decentralization' are not clear-cut alternative states which exist in some ready-made form and can be applied here and there very much like taking one or other of alternative patent medicines. They go deeply into the process of management itself; much of the discussion of them in recent years has been characterized by a superficiality of treatment because of failure to recognize this deep embedding in the management process. The balance between centralization and decentralization in managerial control is not, in my view, determined by a formula which can be applied indiscriminately to each organization specifically. It was said above that centralization is to be applied in regard to policy and procedures to insure uniformity and balance of management action, whereas decentralization is to be the principle for management responsibility: even this wide generalization might well be found open to question."²¹²

²¹²Kruisinga, The Balance..., pp. 21-22

If there is an intent to practice managerial decentralization by displacing maximum authority for decision-making from central headquarters to the field operating agency, then these are the principles which must be applied:

1. There must be a philosophy of managerial decentralization that is tailored to fit the needs of the organization, and understood and accepted by all management levels.

2. There must be a definition of relationships between the levels of management to assure a high degree of coordinated effort.

3. There must be a definition of the responsibilities, delegated authorities, and limitations imposed on each major decision-making element.

4. There must be delegation of authority for decision-making to the critical points in the organization where problems arise, action occurs, and accurate and timely information is available.

5. The time and talents of top executives must be directed toward major problems and decisions, and not preoccupied by details.

6. Capable managers, with the ability to see the business as a whole, must be selected, trained and placed for successful achievement of the overall purposes.

7. Participation in planning must be extended to those carrying out the operations, the doers.

8. Opportunities for mistakes must be provided, the mistakes minimized, and grave consequences avoided.

9. Good performance must be rewarded and consistently poor performance resolved.

10. Objectives and ground rules must be decided by top management, with achievement and compliance assured by a control system which has meaning for

those who must work with it.

11. Decentralized decision-making must be supported by expert staff advice and the best available information, to be effective.

When these principles have been accepted, then the problem is to determine what must be done to apply them to the particular management structure. Perhaps one of the most difficult problems of relocating authority for decision-making arises from the natural unwillingness of people to delegate, and the insecure feeling created for those in central headquarters who no longer are able to have their fingers on minute details. This can be overcome by selling the philosophy of managerial decentralization with enthusiasm, developing an understanding of its purpose, and supporting it when there are indications of it slipping. We may say that if these principles of managerial decentralization are to become practice, then this is how they must generally be applied:

1. Develop a philosophy by providing a foundation of principles which will convey:

- a) the intent of the president or director
- b) the degree of managerial decentralization implied
- c) why such decentralization is advantageous and needed
- d) meaning to lower levels of responsibility.

2. When to refer what decisions to a higher level, because they involve other important organization elements, must be spelled out with clarity. If staff advice is implied to be accepted or rejected at the discretion of the field office or division level, then the lines of direction and advisement must be clearly understood so that one can be distinguished from the other without doubt.

3. Responsibilities and authorities expressed in terms of decisions to be made are more difficult to develop but far more certain and effective than statements of missions alone.

4. The problems arising from daily operations are many and varied; they must be resolved by the operating or staff agency having the most accurate and timely information available to guide decisions affecting these problems. This requires a confidence from top-management that these problems can be handled at the points where they arise; a willingness to relinquish decision-making authority down to the problem areas; and a willingness to tolerate mistakes resulting from poor decisions in order to avoid them.

5. The probability of success is increased by expert leadership and not blind followership. Meaning must be attached to intermediate and ultimate objectives, as well as the ground rules and controls which lead to the attainment of purposes. If planning is divided into setting goals and planning their achievement, then those who are going to perform the acts necessary for achievement must be included in the planning. If controls are going to assure conformance with plans, then those who are going to be conforming are in a position to give intelligent advice on the development of controls with which they must work. The doers must understand the true meaning of the plans, rules, and controls before they can intelligently support them. When this understanding is shared by all management levels, we are not only assuring success of the system, but also giving subordinate managers the opportunity to grow.

When implementing a decentralization policy there are four basic considerations to bear in mind: (1) Decentralization must be balanced by appropriate centralization, (2) the degree of decentralization is limited by the availability of effective controls, (3) appropriate organization structure aids decentralization, and (4) decentralization demands capable managers.

A general consideration related to decentralization is the philosophy of management itself. Management's first function is economic performance, and it

must, in every decision and action, justify its existence and its authority by the economic results it produces. It's first job is managing a business within a limited scope and extent of authority and responsibility.²¹³

Management, as the governing organ of the enterprise, responsible for its survival and prosperity, has three major responsibilities which together constitute the top-management function: (1) Responsibility for the organization of human resources and their efficient use, (2) responsibility for survival in the economy, (3) responsibility for an adequate and orderly succession to top-management itself. All three are involved in the making of decisions rather than carrying them out; making of policy; and planning.

The continuing success of a business enterprise depends upon the efficiency and ability of its management to carry out the vast amount of inter-related functions, magnified by size and every changing technology, and economic conditions. This results in a constant pressure for management to improve itself through more effective organization and utilization of its resources. Perhaps the utilization of its human resources offers the greatest challenge to top-management today.

Managerial decentralization is not merely a device to meet specific problems; it is a philosophy of management. Adoption of a decentralized approach to management requires top level decisions concerning: What principles of managerial decentralization are going to be practiced; what degree of managerial decentralization is needed, and what is possible to attain; and what action is necessary to make this possible in the immediate and distant future.

It is strongly felt that decentralization should not normally include

²¹³Peter F. Drucker, The Practice of Management (New York: Harper and Brothers, 1954), p. 10.

technical functions such as finance, purchasing, marketing, and engineering, personnel, accounting, etc. These specialized functions are normally extremely complex and require expert attention. This expert attention is usually concentrated at the central headquarters. When divisional managers have staff personnel, formal communications from the central staff to lower level staff should flow through line executives. This procedure accomplishes a two-fold purpose. The field manager is always well informed and it prevents staff personnel from usurping line authority. In addition, as machine applications are introduced into the organization, the structure of the organization does not have to undergo significant change. The links required for the effective utilization of such systems are already incorporated and centrally organized for maximum efficiency. Thus it is concluded that the functional capabilities of machine applications should generally be centralized.

Any steps toward managerial decentralization must necessarily be implemented gradually, in a well planned manner. The requirement for trained personnel in the field is paramount. If Leavitt and Whisler's prediction for the 1980's should materialize, the question immediately arises, where will the managers come from in 2000? An elite cōp^h of management in a closely knit organization at the pinnacle of the hierarchy, will furnish little training and experience for their replacement. The elimination of middle-management would only aggravate the situation. Perhaps the answer lies in a system similar to the succession to the throne in a monarchy. Prospective top executives would be groomed from birth on to prepare them for their destined positions at the top of the hierarchy. Such a speculation is unlikely to materialize for obvious reasons. Management must perpetuate itself and management decentralization is certainly one method of insuring that a capable replacement is adequately

groomed to carry on the responsibilities of management in the future.

Seeking the optimum degree of managerial decentralization requires careful analysis of the situation at hand. The advantages and disadvantages must be prudently weighed. Contrary to popular belief, decentralization is not good in itself. It requires the review and study of many factors. In studies involving the determination of the optimum degree of decentralization, the value of the operations research technique cannot be overemphasized. Decentralization is a subject which must be treated not only with respect but with realism. It is hoped that this thesis has provided a heuristic approach in presenting a universally accepted framework for a decentralization philosophy.

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1880

The first of the year was a very dry one, and the crops were much injured by the drought.

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